NYSBA

SUMMER 2002 | VOLUME 13 | NO. 2

Entertainment, Arts and Sports Law Journal

A publication of the Entertainment, Arts and Sports Law Section of the New York State Bar Association

Remarks from the Chair

The first half of the new year has been a very busy one for the EASL Section, with the promise of much more to come. Complementing a number of excellent, well-attended committee programs hosted by our Section earlier this year are several more currently in the planning stages.

Before talking about some of these programs, I want to mention that our Executive Committee is pursuing two new initiatives about which we are quite excited. First, we have decided to revive our Section retreat. While we are still working out details, we anticipate that this retreat will take place this fall at a location within an hour of New York City. It will likely involve a Friday night social event, a cocktail party and dinner, and a Saturday program designed to earn members between six and eight CLE credits. The Saturday schedule will include meals, and we hope to include a social event that day as well. The proximity to New York City will give most of our members the option of either staying overnight on Friday night or commuting to save costs. We are thrilled to bring back the retreat, which will have the dual purpose of enhancing social contacts among our Section members and satisfying a large portion of members' CLE obligations.

Jay Flemma and **Kenneth Nick** have been exploring arrangements and anticipate selecting a date and organizing the program shortly. I encourage members to check our Web site, http://www.nyeasl.org, periodically for information concerning this fall program. We hope to see many of you there!

Inside

NYSBA 125 Years

Our second initiative is our exploration of a relationship with Volunteer Lawyers for the Arts, one of the leading pro bono organizations dedicated to artists, authors and entertainers. While **Elissa Hecker** and **Elisabeth Wolfe** are still working out the details of our relationship, we are enthusiastic about the prospect of collaborating with an organization that not only provides valuable pro bono services to a segment of the same community as many of our members' clients (and with whom many of you may already have a relationship), but which has also established a reputation for providing excellent training to lawyers seeking to gain experience in the entertainment and art law fields. Once again, I encourage Section members to check our Web site for further information.

Our Section continues to be revitalized with the addition of new Executive Committee members and new Committee Chairs. I am pleased to introduce five to you: **Dan Marotta** is our new Chair of the Music and Recording Industry Committee, **Mary Ann Zimmer** has moved from Program Chair to Chair of the Motion Pictures Committee, the aforementioned **Kenneth Nick** has hit the ground running as Mary Ann's replacement as Program Chair, **Judith Prowda** has taken over as Chair of the Fine Arts Committee, and **Ayala Deutsch** replaces me as Co-Chair of the Committee on Professional Sports. I look forward to working with all of them.

Our *Journal* and Web site continue to get rave reviews! I believe that we have a record number of articles in this issue; not only do we have many outstanding "commissioned" articles, but we have also received numerous excellent unsolicited submissions, several of which are published here.

As I mentioned in my last column, the Web site is a terrific place to find searchable *Journal* articles, recent decisions of note, industry news, membership information, and a calendar of Section programs and links to other sites. I am also happy to report that the *Entertainment Law Reporter* has permitted us to post some of its content on our Web site as well, which provides our members with another source of high-quality information and commentary.

Finally, I want to close my remarks with just a few examples of outstanding programs that were recently hosted by some of our committees. The Literary Works & Related Rights Committee held a program entitled "One Suit, Two Suit, Red Suit, Lawsuit: Is Dr. Seuss Gone With the Wind? The Future of the Parody Defense," which explored parody as a fair use defense to copyright and trademark infringement. **Jay Kogan**, Chair of that Committee, then collaborated with **Jennifer Unter** in "Mastering Your Own Domain: Fed Up With Working for Others? Ready or Forced to Go it Alone?," the latest in Jennifer's Young Entertainment Lawyers Committee's continuing series designed to provide guidance to new attorneys interested in a career in one of our Section's fields.

Judith Prowda has had an active spring as the new Chair of the Fine Arts Committee. She hosted a program on style in copyright infringement cases in which musicologist Judith Finell gave her perspective as an expert witness. Judith followed that up with a presentation by Professor David J. Bederman of Emory Law School on the development of the law relating to artifacts and art works recovered from sunken shipwrecks.

With so much on the horizon, we hope that our Section members will join us at some of our upcoming committee programs and at our Fall Meeting.

Jeffrey A. Rosenthal

Editor's Note

I am pleased to report that the first annual Copyright Awareness Week (©AW) was an enormous success, thanks to overwhelming support and participation nationwide, including many members of this Section. ©AW activities took place in over 150 venues across the country, and there were almost 100 Friends of ©AW (organizations that donated funds and services), with our Section included among them. A proclamation was issued from Mayor Bloomberg's office and Representative Coble read a statement about the importance of the week into the *Congressional Record*. ASCAP held a very successful essay writing contest and the Grammy Foundation held a program in Los Angeles. ©AW was featured in a show on National Public Radio, was included in teacher guides published by Scholastic and was the focus of conversations within organizations concerned with copyright across the nation. Hundreds of colorful posters, buttons and giveaways were distributed to students as reminders of the week.

As a matter of fact, several schools that had hosted participants who spoke during the week have requested that ©AW be extended for a period of time. This is so important as the teachers, administrators and most importantly, the students, realized that the lessons learned regarding the importance of copyright cannot be limited to just one week. Rather, it is a lifelong lesson of pride in the law and respect for intellectual property.

Planning is already underway for next year's ©AW, and I want to express the gratitude of the FA©E Committee to all of the participants from this Section. You helped to make this year's ©AW a great success and brought some of your passion for the importance of copyright to countless students.

For more information regarding ©AW, please refer to the Web site of the Copyright Society of the U.S.A. at http://www.law.duke.edu/copyright/index.htm. Should you be interested in teaching about copyright awareness at any time, curriculum materials have been prepared for elementary, middle and high school classes, and are available at http://www.law.duke.edu/copyright/html/events/CAW2002.html and www.copyrightkids.org.

This is a tremendous issue of the *Journal*, filled with articles of interest and import. As always, I encourage Letters to the Editor and submissions of articles. Please feel free to contact me with any ideas you may have. The next deadline for the *EASL Journal* is FRIDAY, SEPTEMBER 27, 2002.

Elissa D. Hecker

Elissa D. Hecker is Associate Counsel to The Harry Fox Agency, Inc., licensing subsidiary of The National Music Publishers' Association, Inc., where she is involved with legal, educational and policy matters concerning the world's largest music rights organization and the U.S. music publishing industry trade group. Ms. Hecker is the Vice-Chair of the EASL Section. In addition to membership in the NYSBA, Ms. Hecker is also a member of The Copyright Society of the U.S.A., Chair of the FACE Initiative children's Web site, a member of the Steering Committee of the FACE Initiative and a member of other bar associations.

Next *EASL Journal* Deadline: Friday, September 27, 2002

CELEBRATE CREATIVITY COPYRIGHT AWARENESS WEEK APRIL 22-28, 2002

Copyright Awareness Week 2002

A Report of the Copyright Society of the USA's Friends of Active Copyright Education (FA©E) Committee

Mission and Purpose

2002 marked a threshold year for The Copyright Society of the U.S.A. ("Copyright Society") as it reached out to copyright creators, owners and users with its first public education initiative. The Copyright Society launched, with great success, its first annual Copyright Awareness Week during the week of April 22-28.

Copyright Awareness Week was conceived by the Copyright Society as a means to create a greater understanding among the youth of America about what copyright is and the role it plays in the advancement of the arts and our economy. Copyright Awareness Week is an educational, non-partisan event, intended to bring copyright creators and users together to educate the public about basic copyright law, its underlying purpose and the activities that it prohibits and permits.

Our experience with Copyright Awareness Week confirmed how timely and important this initiative is to the continuing vitality of the arts in the United States. Copyright is more important than ever to the life of our economy and culture,[1] and yet the enormous gap between its significance to our society and the public's lack of awareness persists. Most people, young people in particular, know very little about copyright. And now that the consumer, as well as the professional pirate, can copy music, books, films and other creative works with the click of a mouse, the public's awareness of copyright law becomes all the more urgent. How can one expect a public that has no understanding of, much less appreciation for, copyright laws to abide by them? It is like trying to enforce speed limits without letting anyone know what they are. It is our belief that by fostering a familiarity with copyright law, including its purpose, protections and exceptions, a greater respect for copyright and the creators it protects will naturally follow.

"Celebrate Creativity. Respect Copyright." This, or more simply "Celebrate Creativity," is the slogan for Copyright Awareness Week. This simple message sums up what Copyright Awareness Week is all about. Our copyright laws have enabled the development of a prolific culture of arts and entertainment by providing creators with incentives and control over their works, allowing them to be fairly compensated. As a society, we value our arts tremendously; our music, literature, theater, television, film and fine arts help define who we are. Indeed, our Founders thought it important enough to separately and expressly provide Congress with the power to grant limited term copyrights "to promote the progress of science and useful arts."[2]

In bringing together a wide range of groups concerned with copyright, the Copyright Society seeks to establish one week a year when creators, publishers and users of creative works can come together and spread the message about copyright simultaneously through educational and other activities, in order to create the greatest cumulative impact.

The Copyright Society is a non-profit educational organization with over 900 members located in chapters throughout the United States. Members of the Copyright Society represent all sectors of the copyright industries, including creators, publishers and users, as well as law students and professors. As its primary function, the Copyright Society seeks to promote a better understanding of copyright and dialogue among copyright professionals, creators and users, as well as the general public. The Copyright Society engages in no lobbying of any kind. Given its non-partisan mandate and mission, it is ideally suited to coordinate this nationwide educational effort.

Copyright Awareness Week 2002

Our launch of Copyright Awareness Week this year turned out to be timely. A number of organizations around the country already recognized the need for copyright education and were poised to start their own programs. These groups enthusiastically welcomed the Copyright Society's initiative to depoliticize copyright education and create a coordinated nationwide effort.

Organizations interested in getting involved were invited to be officially listed as "Friends of Copyright Awareness Week." An impressive group of over 75 organizations signed on for Copyright Awareness Week 2002. (A list of "Friends" appears in the Copyright

Awareness Week section of the Copyright Society's site (at www.csusa.org). A number of additional groups have already indicated their desire to join Copyright Awareness Week for next year. This year, each "Friend" conducted its own activities, ranging from posting the Copyright Awareness Week logo and slogan or information on Web sites, to conducting educational initiatives.

Highlights of some of the principal activities for Copyright Awareness Week 2002 are summarized below:

- **Teach-ins:** As the main activity of Copyright Awareness Week 2002, the Copyright Society's members, as well as many of our Friends' members, were encouraged to speak about copyright law in their local schools and other organizations. We asked our members to arrange their own speaking engagements, although certain of the talks at some of the high-profile venues (such as LaGuardia High School for the Performing Arts in New York City and Hamilton High School Academy of Music in Los Angeles) were centrally organized.

  Copyright Society members alone spoke in approximately 150 venues across the country in 14 different states, from Massachusetts to Florida and New York to California. The schools included all age levels, from elementary to law schools. The educators we approached readily welcomed our coming into their schools to talk. The lack of copyright education is already recognized by many educators as a void that needs to be filled. Indeed, a number of those we spoke to are eager to learn about copyright themselves. Moreover, the feedback we received from the lectures conducted was universally positive. Most schools have asked us to come back and speak to more students or even the entire school (and in some cases the entire school district) next year, and a number said that they would like to make it a part of the regular curriculum.

  There were a number of schools at which we were not able to arrange talks due to scheduling conflicts. Next year, we will approach those schools early in the school year to arrange dates, and will hold Copyright Awareness Week in March instead of April, which tends to be a very busy month for many schools.

  A number of other organizations, including The Harry Fox Agency, Inc., the Graphic Artists Guild and the Copyright Clearance Center, also spread the word to their members or taught their employees about copyright and encouraged participation in the teach-in.

- **Curriculum Materials:** To assist educators and guest speakers, the Copyright Society developed a unique "Copyright Curriculum" for use in the classroom. The materials are available in the Copyright Awareness Week section of the Copyright Society's Web site (www.csusa.org). Separate curriculums were developed (by Lori Hecker, a professional educator) for elementary, junior high and high schools, as well as for higher education. The materials include step-by-step, easy-to-follow lesson plans, definition and information sheets to use as handouts, a homework sheet for parents, a "Copyright Web" for younger students, copyright "basics" and exercises for older students, background reading for homework assignments for older students and a handout containing real-life examples of copyright cases. In addition, the Copyright Society's kids' site (www.copyrightkids.org) contains a number of different instructional materials and exercises for students to use on their own or for teachers to use in the classroom.

- **Copyright Awareness Week Logo:** Because the impact of Copyright Awareness Week depends on visible signs of support, a Copyright Awareness Week logo was created for the Copyright Society (by Jack Gernsheimer of Partners' Design). We made the logo available for downloading from the Copyright Society's site under license to all Friends of Copyright Awareness Week. Friends were permitted to use the logo on their own sites as a hyperlink to the Copyright Society's site or on any materials they distributed relating to Copyright Awareness Week. Many of our Friends did use the logo as a link, generating considerable traffic to the Copyright Awareness section of the Copyright Society's site. Suggested future uses for the logo include placing it as a sticker on products which contain copyrighted works.

- **Banner Advertisement:** A Copyright Awareness Week banner advertisement was created for the Copyright Society (by Aaron Mischel of Reach Media), based on the logo described above. The banner was made available to Friends of Copyright Awareness Week. Various Web sites utilized this banner on their sites, and the Copyright Society adopted the banner as its letterhead for correspondences relating to Copyright Awareness Week. Several Friends ran online public service announcements (PSAs), using the banner as a link to the Copyright Awareness Week section of the Copyright Society's site. WorldNow, which ran such a PSA campaign, reported a click-through rate of 150 percent of the national average click-through rate for banner advertisements.

- **NYC Proclamation:** The Office of the Mayor of the City of New York issued a proclamation declaring April 22-28 Copyright Awareness Week in the city of New York "in recognition of this important observance."

- **Congressional Statement:** Congressman Howard Coble read a statement into the *Congressional Record* announcing Copyright Awareness Week and the need for it. It is expected that Congress will issue a proclamation for Copyright Awareness Week next year.

- **MENC Mailing:** A mailing was sent to the more than 3000 music educator members of MENC (the National Association for Music Education) at schools around the country. The packet included information about Copyright Awareness Week, a poster to be hung in each school and a letter encouraging the educators to include instruction about copyright in their curricula. Based on reports received, a number of MENC teachers mentioned Copyright Awareness Week and/or used the curriculum materials in the classroom.

- **ASCAP Essay Contest:** The ASCAP J.A.M. program ran an essay contest in conjunction with the MENC Tri-M honors society chapters. Students were asked to write an essay answering the question "How do copyright laws benefit young musicians?" A panel of judges evaluated submissions and selected this year's winners. Winners were announced at the 2002 MENC National Conference held in Nashville, Tennessee. Three prizes, ranging from $1,000 to $300, plus generous J&R Music & Computer World certificates were awarded.

- ***Scholastic* Magazine Survey:** *Scholastic* magazine, a leading magazine aimed at school-aged children, ran an article in one of its issues and an online survey for students in grades 1-8 on its Web site. The survey question was whether the students thought that they should have to pay for downloading other peoples' works from the Internet. From a total of over 35,000 responses, 62 percent responded that "yes" they should have to pay.

- **Giveaways (Posters, Handbills, Stickers and Pins):** The Copyright Society created and distributed 3,500 Copyright Awareness Week posters and the same number of handbills, 2,000 Copyright Awareness Week buttons and 5,000 stickers. The stickers and buttons were a huge hit in the schools. In addition, the United States Copyright Office distributed 1,000 of its own posters. All of these items went very quickly. Next year the Copyright Society will order much greater quantities of each.

- **Joe Simon Poster:** Joe Simon, creator of "Captain America" and other renowned comic book characters, produced a wonderful, eye-catching poster for Copyright Awareness Week that we will use to brand Copyright Awareness Week next year. We were not able to print the poster in time to use it for Copyright Awareness Week 2002, but have printed a signed, limited edition and will distribute the poster widely for Copyright Awareness Week 2003.

- **Radio Coverage:** Incoming Copyright Society President Maria Danzilo spoke about Copyright Awareness Week and the need for copyright education on Brian Lehrer's radio show (WNYC) on April 26th.

- **Press Coverage:** A nationwide public relations campaign will not be launched until next year. Nevertheless, several prominent U.S. news publications picked up on and covered Copyright Awareness Week. A few European publications also ran short pieces. In addition, the New York State Bar Association's *Entertainment, Arts & Sports Law Journal* published an article and materials about Copyright Awareness Week and several other Friends carried pieces in their online or off-line publications.

- **GRAMMY Foundation**: In conjunction with the GRAMMY Foundation's Fox Music-GRAMMY Music Mentoring Program, Ron Gonzalez of Warner Bros. Records led a session at the Hamilton High School Academy of Music on April 19th.

- **Web Site Activity:** Many Friends of Copyright Awareness Week provided links to the educational sites developed by Copyright Society volunteers. Due in large part to those links and the publicity efforts of the Copyright Society and its Friends, it appears (from the sheer volume of e-mails received from schools, universities and copyright-related organizations around the world) that tenfold the usual amount of traffic was generated on the Copyright Society's educational sites, including its (1) Friends of Active Copyright Education (FA©E) site (www.face-copyright.org)—which is geared mainly toward an adult or higher education audience and provides information on copyright law as it applies to various media, (2) the kids' site (www.copyrightkids.org), which contains copyright basics, a quiz, a yearbook role-playing exercise, a teachers' area with class exercises, a definitions section and practical information for obtaining permissions and registrations and (3) the Copyright Awareness Week section of the main site (www.csusa.org), which contains the curriculum materials developed specifically for Copyright Awareness Week. The sites, which are hosted by Duke University, are linked to one another.

Planning for Copyright Awareness Week 2003

Planning for next year's Copyright Awareness Week, tentatively scheduled for the week of March 9-15, 2003, is already underway. Our goals for Copyright Awareness Week 2003 remain the same, but we envision it growing to become a well-recognized annual event. We expect to launch a nationwide publicity campaign for Copyright Awareness Week 2003. We would also like to get into many more schools and, based on our experience this year, see no obstacles to doing so. Of course, we are also encouraging and counting on many more speakers to get into the schools. Those who did participate by speaking this year reported having a tremendous amount of fun. We are hoping that word will spread.

One of our goals for Copyright Awareness Week 2003 is to further develop and customize the curriculum materials for teachers to use in the classroom and to educate teachers about copyright so that they can, in turn, educate their students. Only by reaching out to teachers will we be able to bring copyright education into the maximum number of schools. Our experience has shown us that many teachers are hungry for copyright knowledge themselves and already see it as an important part of educating our children for the future.

Acknowledgments

The Copyright Society expresses its gratitude and thanks to all who helped with the launch of Copyright Awareness Week. Thanks to all of the Friends of Copyright Awareness Week who, on their own initiative, helped make Copyright Awareness Week a truly national event with a wide reach, and a special thanks to our primary sponsors, the ABA Intellectual Property Section and the AIPLA, which provided the bulk of our funding, and also to the New York State Bar Association Entertainment, Arts and Sports Law Section and EMI Music Publishers for their generous contributions.

We also want to thank everyone from the Copyright Society and elsewhere who took the plunge and spoke at schools for Copyright Awareness Week 2002.

A special thanks to the members of the Copyright Awareness Week Steering Committee: Gary Roth, Elissa Hecker, Lori Hecker, Sarah Sully, Gillian Lusins, Steve Weissman, Corey Field, Monica Corton, Miriam Stern, Ross Charap, Judith Finell, Sam Mosenkis, Carolina Saez, Nancy Wolff, Carol Gerber and Bob Clarida, who led the charge, as well as the Copyright Society's President Bob Bernstein, who kept us going and always stood ready to roll up his sleeves and offer wise counsel, all of the other trustees and officers who provided invaluable advice, contacts and assistance, especially Judith Saffer for her fundraising and Alan Hartnick and Eugene Girden for reviewing streams of material on short notice, the Copyright Society's incoming president Maria Danzilo, for her insight and guidance, and most especially to our Administrator Barbara Pannone for the her tireless assistance, patience and ceaseless energy and those who assisted her in the office, Aarti Tandon, and, most of all, the incoming Copyright Awareness Week Chair Staciellen Heasley, who volunteered hours few mortals could manage and was the thread that held us all together. A special thanks also to Jack Gernsheimer, who created the logo, Joe Simon for his beautiful poster, Aaron Mischel for the banner, and Lori Hecker, who developed a large part of the curriculum. And I would personally like to thank my employer Morrison & Foerster, who, without complaint, allowed me to spend countless hours on Copyright Awareness Week and fully supported the initiative in every way, providing administrative support and the flock of attorneys who assisted at one point or another in the planning and spoke at schools during Copyright Awareness Week 2002.

Mary Rasenberger
Chair, FA©E Steering Committee

Endnotes

1. Over the last 25 years, the copyright industries have grown almost twice as fast as the economy as a whole, significantly outperforming the rest of the economy in terms of employment, contribution to the GDP and exports. *See* Stephen E. Siwek, "Economists Incorporated," prepared for the International Intellectual Property Alliance, *Copyright Industries in the U.S. Economy: The 2002 Report* (2002).
2. U.S. Const. art. I, § 8.

Up and Running: The Phil Cowan Memorial Scholarship

EASL is pleased to announce that the New York Bar Foundation has approved the creation of a restricted fund for contributions to the Phil Cowan Memorial Scholarship. The Scholarship of $2,500 will be awarded on an annual basis in Phil Cowan's memory to a law student who is committed to a practice concentrating in one or more of the fields of entertainment, art or sports law.

Eligible Recipients. The recipient of the $2,500 Scholarship will be selected each year through a writing competition. The writing competition is open to all first and second year law students who are members in good standing of the EASL Section and who attend a law school anywhere in New York State, Rutgers University Law School (Newark and Camden campuses) or Seton Hall Law School.

The Competition. Each Scholarship candidate must write an original paper on a legal issue of current interest in the area of entertainment, art or sports law. The paper should be twelve to fifteen pages in length, double-spaced and including footnotes, in bluebook form. The papers should be submitted to designated faculty members of each respective law school. All law schools will screen the papers and submit the three best to the EASL's Phil Cowan Memorial Scholarship Committee. The Committee will read the submitted papers and will make the ultimate decision as to the Scholarship recipient.

Deadlines. All students must submit their papers to their respective law schools for consideration not later than April 30 of each year. The screening faculty at each respective law school must submit the top three papers to the EASL's Scholarship Committee by June 1 of such year. The Scholarship Committee will determine the winner by October 31, and the winner will be announced, and the Scholarship awarded, at the Annual Meeting, which will take place the following January.

The Scholarship Committee and Prerogatives. The Scholarship Committee is composed of all former Chairs and the current Chair of the EASL Section. Each winning paper will be published in the *EASL Journal* and will be made available to EASL members on the EASL Web site. The Scholarship Committee reserves the right to submit all papers it receives to the *EASL Journal* for publication and to the EASL Web site. The Scholarship Committee also reserves the right not to award a Scholarship if it determines, in any given year, that no paper submitted was sufficiently deserving. All rights of dissemination of the papers by EASL are non-exclusive.

Payment of Monies. Payment of Scholarship funds will be made by EASL directly to the law school of the winner, to be credited to the winner's account.

Donations. The Phil Cowan Memorial Scholarship fund is pleased to accept donations. The donations are tax-deductible. All donations should be by check, and be made payable to the **New York Bar Foundation.** Each donation should indicate that it is designated for the Phil Cowan Memorial Scholarship. **All donations should be forward to The New York Bar Foundation, One Elk Street, Albany, New York 12207, Attention: Kris O'Brien, Director of Finance.**

Please check out our Web site at www.nyeasl.org for more information concerning the Phil Cowan Memorial Scholarship during the next few months

Buyers Beware: Protecting Against the Risk of Purchasing Stolen Art

By Jonathan Bloom

Introduction

The responsible purchaser of a work of art—whether a private collector, a dealer or a museum—has two principal concerns, apart from whether there is enough money in the checking account: (1) That the work is authentic and (2) that it is not stolen. To be sure, these concerns are not as serious with respect to contemporary art, but they are serious indeed for purchasers of antiquities and art objects created prior to World War II. Purchasers who are not alert to these potential problems risk buying something worth much less than what they paid, or a lawsuit, or both. This article deals with the second concern, specifically, how to avoid acquiring stolen art, and how to be in a position to mount the best possible defense if one does.

> *"It is estimated that as many as 100,000 art objects stolen by the Nazis from Jewish families have not been located."*

Stolen art is a major problem. Thefts from museums, churches, libraries, cemeteries, archaeological sites, and other public institutions and private homes around the world are a daily occurrence.[1] In 1980, the Supreme Court of New Jersey cited "an explosion in art thefts" and a "worldwide phenomenon of art theft which has reached epidemic proportions."[2] The value of art stolen annually worldwide is generally reported to be several billion dollars.[3] Tens of thousands of art thefts occur each year around the world, and only 10 to 15 percent of stolen art is recovered.[4]

In addition to more traditional thefts, works of art were stolen, confiscated, or acquired by forced sale by the Nazis during World War II on a vast scale—some of it for the private collections of Nazi leaders, some to be exhibited as a testimony to the glory of the Third Reich and some to be resold.[5] It is estimated that as many as 100,000 art objects stolen by the Nazis from Jewish families have not been located.[6] Many of the most highly publicized stolen art claims in recent years have involved works stolen by the Nazis and funneled (often through Switzerland) to Western markets—chiefly the United States—with the aid of complicitous dealers in Germany and other European countries. The Nazis were by no means the only pilferers of valuable artwork that wound up in the United States, however; valuable art objects were also "appropriated" by U.S. servicemen and brought home at the end of the war.[7]

Inherent characteristics of art, such as its value, aesthetic allure, uniqueness and portability, surely contribute to its popularity as a target of thieves. Characteristics of the art market, in turn, contribute to the risk of unwittingly purchasing stolen art. First, it is international, such that stolen objects often surface on the market years later and a continent away from where the theft occurred. Second, it has traditionally been carried on in a secretive manner. Withholding details regarding ownership history has long been common practice among art merchants, often for legitimate reasons, such as to protect their sources and the privacy of their clients. However, this practice has created an air of mystery about the provenance of many older art objects and has made it more difficult for purchasers to identify works that are, or may have been, stolen.

Whether out of respect for industry practice, a desire to remain innocent of troubling facts, misplaced confidence in the integrity of the market, or good-faith reliance on the seller's warranty of title, even sophisticated buyers all too frequently fail to probe beyond the seller's vague representations regarding provenance in order to assure themselves that the seller is able to convey good title. As one court observed in 1980, in the "arcane world of sales of art . . . paintings worth vast sums of money sometimes are bought without inquiring about their provenance."[8] Another court, commenting in 1979 on a dealer's failure to question the seller's ability to convey good title, noted disapprovingly that "in an industry whose transactions cry out for verification of . . . title . . . it is deemed poor practice to probe . . ."[9]

This lack of full disclosure concerning provenance has contributed over the years to an unfortunate degree of melding of legal and illegal art commerce. Stolen art, it has been observed (perhaps a bit dramatically), "inundates the legitimate market."[10] As a result, the assumption that art acquired through a respectable source is free of any cloud on title is less safe than one might think. In fact, most of the leading stolen art cases involve works acquired through respectable sources.

Art world practices with respect to investigating the provenance of works of art have improved dramatically in the last decade, particularly in the last four or five years, largely as a result of the intense international focus on the identification and restitution of works stolen during the Holocaust. Most dealers and auctions houses now routinely vet prospective acquisitions and consignments through (at least) the Art Loss Register. The unfortunate reality, however, is that much stolen art has been offered for sale through legitimate channels and unwittingly acquired by innocent purchasers. Thus, those original owners who eventually are able to track down their stolen property usually are faced with attempting to recover it not from the thief, but rather from a private collector or a museum that acquired it without knowing that it was stolen.

This article focuses on how courts have reconciled these competing claims and on what these rulings mean for art purchasers. It will focus on art purchasers, because while theft victims are at the mercy of events that they do not control, art purchasers make—or are in a position to make—informed decisions to assume the risk of entering the art market. They can guard against acquiring stolen art by exercising appropriate caution and by undertaking appropriate investigation prior to entering into transactions. In part for this reason, courts tend to be less sympathetic toward even good-faith art purchasers than they are toward theft victims who have made good-faith efforts to locate their property, even if those efforts were less than exhaustive.

As discussed below, the law permits theft victims to assert claims against good-faith purchasers many years after the theft. Therefore, engaging in appropriate investigation prior to making an acquisition of a valuable work of art—or ascertaining that the seller has done so—is critical to (1) avoiding acquiring stolen art in the first place and (2) putting oneself in the best equitable position vis-à-vis the original owner should the work turn out to have been stolen notwithstanding one's reasonable investigation. Particularly with the proliferation of stolen art databases such as the Art Loss Register, due diligence by art purchasers has become easier, and failure to consult such databases, along with other reasonable sources of information, less excusable.

Thus, in theory, if the owner has reported the theft, a diligent purchaser will discover that the work is stolen before making the purchase. On the other hand, just as failure to take reasonable steps to search for stolen property may (as a matter of equity) preclude the owner from recovering it, so may turning a blind eye to readily discoverable information that it was stolen prevent a purchaser from keeping it.

The Legal Framework: Defenses for Good-Faith Purchasers of Stolen Art

Upon locating their stolen art, theft victims typically seek to recover it from the current possessor by bringing a replevin action, which requires the court to determine which party has the superior interest in the property.[11] A fundamental Anglo-American common-law rule that bears crucially on such replevin claims is that a thief cannot pass good title, even to a good-faith purchaser.[12] Does this mean that the theft victim always wins a replevin claim against a good-faith purchaser? The answer is no.

First, if the work passed through a civil law jurisdiction (such as Switzerland or France) where a good-faith purchaser *can* acquire title to stolen property without regard to the owner's diligence, title could have passed prior to its entry into the United States. Thus, if the applicable choice-of-law rules lead the court to apply the law of the civil law jurisdiction where the transfer occurred, the statute of limitations rules of that jurisdiction may have cut off the owner's rights.[13] Second, even if the law of the forum is applied, otherwise meritorious replevin claims can become unenforceable upon expiration of the applicable statute of limitations. In addition, a laches defense also may enable a good-faith purchaser to preclude recovery of stolen art by an owner who has not pursued his claim for an unreasonably long period of time. The manner in which these defenses are interpreted and applied by the courts is the key to most stolen art cases.

With respect to a statute of limitations defense, the crucial issue is when the limitations period begins to run. In other words, when does the owner's cause of action accrue? Where the claim is against a thief, equity will dictate either that the running of the statute of limitations be tolled by the doctrine of fraudulent concealment until the work surfaces on the market (i.e., until the owner reasonably should have learned of its whereabouts),[14] or that the thief be equitably estopped from invoking the statute of limitations to shield his wrongdoing.[15] But what about a claim against a good-faith purchaser? Here the rules vary by jurisdiction. As we will see, though, the factual inquiry is quite similar regardless of the jurisdiction, although the burden of proof is allocated differently.

The Demand and Refusal Rule

In New York, the accrual of a replevin claim for stolen property as against a good-faith purchaser is determined by the so-called demand and refusal rule. In *Lubell v. Guggenheim*,[16] the New York Court of Appeals held that in New York, the limitations period in a stolen art case (as in any replevin claim involving stolen chattel) does not begin to run against a good-faith purchaser until the owner demands return of the work, and the possessor refuses.[17] The rationale for this rule, which originated in the 19th century,[18] is that possession of the work by a good-faith purchaser does not become wrongful until the owner demands its return.

The Court of Appeals in *Guggenheim* held that under the demand and refusal rule, the owner's diligence—or lack thereof—prior to making the demand is relevant only to a laches defense, not to the statute of limitations.[19] Thus, as long as the owner brings his claim within three years after his demand is refused—even if he did nothing to search for it for decades—the claim will be timely under New York law.

In *Guggenheim*, the Solomon R. Guggenheim Museum sought to recover from Mrs. Lubell a 1912 gouache by Marc Chagall worth an estimated $200,000. The Lubells had bought it from the Robert Elkon Gallery, a well-known Madison Avenue gallery, in 1967 for $17,000; they had displayed it in their home in New York for more than 20 years. The museum first discovered that the painting was not in storage where it should have been sometime in the late 1960s, although it claimed it did not know for sure that it had been stolen until it undertook a complete inventory, which was begun in late 1969 and completed in early 1970.[20]

Even once it made that discovery, however, the museum did not inform other museums, galleries or other art organizations of the theft, nor did it notify the police, the FBI, Interpol or any other law enforcement agencies. According to the museum, it believed that publicizing the theft would only drive the painting further underground and reduce the chances that it would be recovered. In 1974, after concluding that it would not be recovered, the work was "deaccessioned" and removed from the museum's records.[21]

When the Lubells purchased the work from the Robert Elkon Gallery, the invoice and receipt indicated that it had been in the collection of an individual who later turned out to be a Guggenheim mailroom employee who was suspected of the theft. The Lubells exhibited the painting at the Elkon Gallery twice, in 1967 and 1981. In 1985, a dealer brought a transparency of the work to Sotheby's to obtain an auction estimate. The person to whom he showed the work had previously worked at the Guggenheim, and she recognized it as the missing Chagall. She notified the museum, which traced the painting to Mrs. Lubell. In January 1986, the director of the museum wrote to Mrs. Lubell demanding return of the work. When she refused, the museum commenced an action in New York state court in September 1987, seeking return of the work or $200,000. Among the defenses Mrs. Lubell asserted were the statute of limitations and laches. She claimed she had no reason to believe the painting was stolen before the museum demanded its return.

The trial court, holding that the museum's claim was time-barred, granted summary judgment for Mrs. Lubell. The Appellate Division modified, reinstating the museum's claim on the ground that, under the demand and refusal rule, delay in making a demand cannot make a claim untimely.[22] The Court of Appeals affirmed. The Court noted that under the demand and refusal rule, New York law had "long protected the right of the owner whose property has been stolen to recover that property, even if it is in the possession of a good-faith purchaser for value."[23] The Court explained (correctly) that the demand and refusal rule "affords the most protection to the true owners of stolen property,"[24] and it posited that placing on the true owner the burden of locating stolen artwork and foreclosing the rights of that owner to recover its property if the burden is not met would "encourage illicit trafficking in stolen art."[25] In the Court's view, "the better rule gives the owner relatively greater protection and places the burden of investigating the provenance of a work of art on the potential purchaser."[26]

> ". . . Guggenheim *makes the purchaser responsible for demonstrating that the owner delayed unreasonably in actively pursuing its property and that the purchaser acted in good faith and was prejudiced by the delay."*

Because the Court concluded that the museum's cause of action against Mrs. Lubell accrued only upon her refusal of the museum's demand for return of the painting, it held that the action was timely.[27] The Court explained that the question of whether the museum had delayed unreasonably in making its demand—in other words, whether it had been dilatory in searching for the work—was more properly analyzed in the context of Mrs. Lubell's laches defense, which also would require her to demonstrate that she was prejudiced by the museum's delay.[28] The Court noted, in this regard, that it would be relevant to the laches defense that the Lubells had investigated the provenance of the work before purchasing it by contacting the artist and his son-in-law directly and that they had displayed it in their home for more than 20 years with no reason to suspect that it had been stolen.[29] As the Appellate Division observed, "defendant's vigilance is as much in issue as plaintiff's diligence. . . . The reasonableness of both parties must be considered and weighed."[30]

In short, *Guggenheim* makes the purchaser responsible for demonstrating that the owner delayed unreasonably in actively pursuing its property and that the purchaser acted in good faith and was prejudiced by the delay.

The result in *Guggenheim* was hardly inevitable, notwithstanding the long pedigree of the demand and refusal rule. In fact, in its ruling the Court of Appeals rejected the reasoning of the Second Circuit in *DeWeerth v. Baldinger.*[31] In *DeWeerth*, the Second Circuit, sitting in diversity, predicted (wrongly) that the New York courts would protect good-faith purchasers by holding that the statute of limitations would bar an owner's claim to stolen art unless she could demonstrate that she had been reasonably diligent in seeking to locate her stolen art.[32] The precise legal issue in *DeWeerth* was whether New York's demand and refusal rule applied only after the owner had located the property or whether it required a reasonable effort by the owner to locate the property. The Second Circuit held that the obligation to make a demand without unreasonable delay "includes an obligation to use due diligence to locate stolen property."[33]

The plaintiff in the case, Mrs. DeWeerth, a German citizen, sought to recover an 1879 Monet painting, "Champs de Blé à Vétheuil," that had been swiped from her sister's castle in southern Germany, probably by a U.S. serviceman who had been quartered there in 1945. It was purchased in 1957 in New York by the defendant, Mrs. Baldinger, from Wildenstein & Co. without any knowledge that it was stolen.[34] Reversing the district court, which had found Mrs. DeWeerth's claim timely, the Second Circuit held that Mrs. DeWeerth had not done enough to locate the painting and had failed to take a number of obvious steps that would have resulted in her finding it years earlier.[35] Specifically, although she had filed a report with the military government in 1946 and had reported the painting missing to the German equivalent of the FBI in 1957, she had done nothing to search for the painting from 1957 until 1981, during which time it had been published in connection with two public exhibitions in New York and also had been included in a Monet catalogue raisonnée published in 1967 by Daniel Wildenstein—which is where her nephew finally saw it in 1981.[36] The court also cited DeWeerth's failure to take advantage of programs set up by the Allied forces after the war in order to collect and restitute stolen art, such as the Central Collecting Points that were established throughout Germany.[37]

Although the court failed to specify precisely when Mrs. DeWeerth's claim accrued, and hence when the statute of limitations had expired, the key to the decision was the obligation of diligence that the court imposed on the *owner* in order to avoid the statute of limitations—the opposite of *Guggenheim*. *DeWeerth* contains no discussion of whether the Wildenstein gallery or Baldinger took reasonable steps to ascertain that the painting had not been stolen (which may be attributable to the fact that the parties stipulated that Mrs. Baldinger was a good-faith purchaser).[38] Rather, the court emphasized that a principal purpose of statutes of limitations—foreclosing stale claims—would be undermined by requiring Mrs. Baldinger to defend the action 30 years after she bought the painting.[39]

Had the *DeWeerth* court been presented with the facts of *Guggenheim*, it surely would have held the museum's claim barred by the statute of limitations on the ground that it did nothing to publicize the theft of the Chagall and failed to locate the work despite the fact that it had been publicly exhibited virtually around the corner from the museum in 1981, after it had been discovered missing. The opposite approach taken by the Second Circuit reflected its understanding of the demand and refusal rule as intended to protect good-faith purchasers by encouraging owners to search diligently for their stolen property,[40] which is consistent with the rationale for the rule: Possession by a good-faith purchaser is not wrongful until a demand is made and refused. However, the Court of Appeals in *Guggenheim* turned the policy on its head, explaining that the purpose of the rule, at least in the context of stolen art claims, is to preserve for as long as possible the right of the theft victim to assert a claim.[41] This reasoning led the court to reject the due diligence requirement imposed on the owner in *DeWeerth*. The flip side of this solicitude toward theft victims, of course, is that good-faith purchasers remain exposed to claims for as long as it takes the owner to find the stolen art.

As a practical matter, however, the difference between the approaches delineated in *Guggenheim* and *DeWeerth*, respectively, is less significant than it might appear. A non-diligent owner (like the Guggenheim) who survives summary judgment on the statute of limitations defense still will be vulnerable to a laches defense. The factual inquiry into the owner's diligence in searching for the stolen property is largely the same whether those facts are deemed relevant to laches, as in *Guggenheim*, or to the statute of limitations, as in *DeWeerth.* The difference is that under a laches defense, the defendant bears the burden of proving that the original owner was not diligent *and* that the defendant was prejudiced as a result.[42] These issues typically are less susceptible to resolution on summary judgment than the single question of whether the owner searched for his property with due diligence,[43] an issue as to which, under *DeWeerth* and the discovery rule cases discussed below, the plaintiff-owner bears the burden of proof. This arguably heightens the importance of due diligence by art purchasers in New York in order to discover title defects prior to entering into a transaction.[44]

Recent New York decisions demonstrate, however, that laches can be a viable ground for summary judgment in stolen art cases where the plaintiff has done nothing to pursue the art for decades.[45] The death of witnesses, fading memories and the loss of documents and other evidence relating to the theft and to the owner's efforts to locate the property have been held sufficient to demonstrate the requisite prejudice to the defendant's ability to adequately defend against a replevin claim.[46]

The Discovery Rule

DeWeerth and *Guggenheim* represent the two divergent policy approaches to what has been called the "tale of two innocents"—the theft victim and the good-faith purchaser.[47] New York, the center of the U.S. art market, has opted to maximize protection for the original owner by placing a greater burden of proof on the good-faith purchaser. The majority rule, however, is closer to *DeWeerth* in that it places on the owner the burden of demonstrating that he was reasonably diligent in searching for his property. Under the so-called "discovery rule," the statute of limitations does not start running until the plaintiff either discovers, or by exercise of reasonable diligence and intelligence *should have discovered*, the facts which form the basis of the cause of action.

The discovery rule was first articulated in a stolen art case by the Supreme Court of New Jersey in *O'Keefe v. Snyder*,[48] which involved a claim by Georgia O'Keefe to recover three of her paintings that were stolen in 1946 from her husband Alfred Stieglitz's New York gallery, An American Place. O'Keefe did nothing to advertise the theft, beyond discussing it with art-world associates, until 1972, when she had the works listed on the Art Dealers Association of America registry of stolen paintings. In February 1976 she learned that the paintings had been sold to defendant Barry Snyder, d/b/a Princeton Gallery of Fine Art, whom she sued for replevin in New Jersey state court.[49]

Snyder moved for summary judgment on the ground that O'Keefe's claim was barred by the statute of limitations. The key issue was when O'Keefe's cause of action accrued. If New York law applied, O'Keefe's claim would have been timely under the demand and refusal rule. Yet on the assumption that New Jersey law applied because none of the parties resided in New York and the paintings were located in New Jersey, the court adopted a discovery rule, which it characterized as "essentially a principle of equity."[50]

The focus of the test, the court explained, was on "whether the owner has acted with due diligence in pursuing his or her personal property."[51] Thus, the court held that O'Keefe's cause of action accrued "when she first knew, or reasonably should have known through the exercise of due diligence, of the cause of action, including the identity of the possessor of the paintings."[52] The court observed that the discovery rule "permits an artist who uses reasonable efforts to report, investigate, and recover a painting to preserve the rights of title and possession."[53]

The court made clear that under the discovery rule, "the burden is on the owner as the one seeking the benefit of the rule to establish facts that would justify deferring the beginning of the period of limitations."[54] With respect to what would constitute due diligence on the part of the owner, to prevent the statute of limitations from running, the court stated that it would "vary with the facts of each case," including the nature and value of the property.[55]

O'Keefe makes clear, however, that the conduct of the owner is not the sole focus of the inquiry, as it was in *DeWeerth*: "Properly interpreted," the court explained, "the discovery rule becomes a vehicle for transporting equitable considerations into the statute of limitations for replevin."[56] Thus, the court "should identify, evaluate, and weigh the equitable claims of *all parties*."[57] In this regard, the court noted that a purchaser of art from a private party "would be well-advised to inquire whether a work of art had been reported as lost or stolen."[58] By allowing diligent owners to pursue their claims, the court expressed hope that its ruling would "contribute to more careful practices concerning the purchase of art."[59] (In this regard, the desired effect of the discovery rule is similar to that articulated in *Guggenheim*; under either approach, a diligent owner will prevail over a good-faith purchaser.)

Another significant discovery rule decision, *Erisoty v. Rizik*,[60] further illustrates that the discovery rule is essentially an equitable doctrine— not unlike laches— pursuant to which the conduct of both parties will be scrutinized. In *Erisoty*, five paintings were stolen from the Riziks' home in Washington in 1960, including four by the 18th-century Italian painter Corrado Giaquinto. Shortly thereafter, the Riziks reported the theft to the local police, who reported it to the FBI, which reported it to Interpol, the European police agency. The Riziks had periodic contact with the FBI over the years in connection with possible leads, but they did not report the theft to the International Foundation for Art Research (IFAR)—which, at the time, maintained the Art Loss Register database—until 1992. Nor did they publish any notices of the theft or contact any museums, auction houses, art galleries or experts on Giaquinto to alert them to the theft.[61]

Thereafter, the fact that one of the Giaquinto paintings, "Winter," had been listed as stolen by IFAR came to the attention of a curator at the Philadelphia Museum of Art, who had been consulted a few years earlier by an antique store owner to whom the painting had been consigned by a mover. The mover had found it in 1988 in five pieces inside a trash bag hidden behind a piece of furniture in a house in Philadelphia. The curator contacted IFAR and reported that the Giaquinto had been sold at auction in 1989. In 1993, the FBI finally learned that it had been sold to the Erisotys (the plaintiffs), from whom the FBI eventually seized the painting and delivered it to the Riziks (the defendants). After the Erisotys demanded that the Riziks return the painting and were refused, the Erisotys commenced a replevin action in the Eastern District of Pennsylvania. The Erisotys claimed that the statute of limitations barred the Riziks from asserting their rights to the painting.

Applying the discovery rule, the court focused on the diligence of the Riziks' efforts to locate their stolen paintings, an issue for which the Riziks bore the burden of proof. The court concluded that they had been reasonably diligent: It was reasonable for them to have believed that the FBI and Interpol were the best available investigative channels, and it was reasonable for them not to have learned of IFAR sooner, since they were not familiar with the art world.[62] Instead, the court gave greater weight to their diligence in taking advantage of IFAR after discovering its existence, which led to recovery of the painting.[63]

The court also emphasized that the discovery rule "permits the court to consider the relative equities of the rival claimants to the art work."[64] Turning to the other side of the ledger, the court chastised the Erisotys for having purchased the painting without inquiring as to its prior ownership or the identity of the consignor, without making any inquiry of art or law enforcement agencies and with knowledge that the painting was in five pieces, which the court termed "suspicious circumstances to say the least."[65] Having purchased the work without making any inquiries as to its history, the Erisotys "took the risk that an original owner could appear at any time."[66]

The court concluded that the statute of limitations did not begin to run until 1993, when the Riziks discovered the whereabouts of the painting and the identity of the possessors, and that the action was thus timely.[67] Accordingly, it ruled that the Erisotys could not recover the work, even though Stephen Erisoty had spent considerable time and effort over a four-year period restoring the work.[68]

Two important lessons from *Erisoty*: First, the discovery rule is a highly flexible inquiry in which courts may be quite forgiving toward unsophisticated theft victims, provided they make sincere, ongoing efforts to locate their property. Second, purchasers who turn a blind eye toward suspicious circumstances and fail to make appropriate inquiries are unlikely to prevail, even when they acquire the art through an art merchant and even if they have made a significant investment in the work after acquiring it.

Who Is a Good-Faith Purchaser?

A threshold requirement for an art purchaser to have a chance of prevailing against a theft victim is that the work was acquired in good faith, for example, without knowledge or reason to know that it was stolen.[69] With respect to dealers, section 2-103(1)(b) of the Uniform Commercial Code (UCC) defines "good faith" for a merchant as "honesty in fact and the observance of reasonable commercial standards of fair dealing in the trade." In this regard, *Porter v. Wertz*[70] is instructive as to how the practices of an art gallery withstand judicial review. The court in *Porter* rejected an art gallery's claim that it took good title to a Utrillo painting pursuant to the entrustment provision of the UCC (§ 2-403-2)[71] because it reasonably assumed that the seller of the painting (who was actually a delicatessen employee involved in a scam) was an art merchant. The Appellate Division found that the gallery made no investigation to determine the status of the seller (which would have exposed him as an imposter). In particular, the court noted that neither the gallery owner nor an employee consulted the Petrides catalogue of Utrillo's works, which included the work in question and which, the court noted, "could have raised a doubt as to [the seller's] right of possession, calling for further verification before purchase by [the dealer] was consummated."[72]

The gallery's claim that its failure to investigate the seller's authority to sell the painting was "consistent with the practice of the trade"[73] led the court to observe that "commercial indifference to ownership or the right to sell facilitates traffic in stolen works of art."[74] The court concluded that because the gallery's indifference as to the work's provenance was inconsistent with the reasonable commercial standards that must be observed by a merchant acting in good faith, the gallery did not qualify as a buyer in the ordinary course of business.[75]

The most famous, or infamous, example of a gallery owner found not to have acted in good faith in purchasing a work of art is Peg Goldberg, the Indianapolis art dealer who purchased four sixth-century Byzantine mosaic fragments that had been ripped from the walls of the Kanakaria Church in northern Cyprus in the late 1970s, while the area was under Turkish occupation. In *Autocephalous Greek-Orthodox Church v. Goldberg & Feldman Fine Arts, Inc.*,[76] the Indiana district court, ruling on Cyprus' replevin claim, held that Indiana would apply the discovery rule to art replevin claims, and that because Cyprus had been reasonably diligent in attempting to locate the mosaics, its claim was not barred by the statute of limitations.[77]

However, in an alternative analysis under the law of Switzerland, where the transaction took place and where a good-faith purchaser (unlike a bad-faith purchaser) can acquire good title to stolen art, the district court concluded that Goldberg was not a good-faith purchaser because she had turned a blind eye to suspicious circumstances and had failed to take a number of obvious steps to ascertain whether the mosaics may have been stolen. Specifically, the court cited the facts that:

- Goldberg knew the mosaics had come from an area occupied by foreign military forces;
- the mosaics had been immovable property of religious and cultural significance—the kind of objects that do not ordinarily enter into commerce;
- there was a vast disparity between the appraised value ($3-6 million) and the price Goldberg paid ($1.08 million);
- Goldberg knew very little about the seller, and the fact that he claimed to be an archaeologist yet was selling antiquities should have triggered suspicion;
- the middlemen—one of whom Goldberg knew was a convicted felon—also were suspicious characters; and
- the transaction was carried out in haste – within one week after Goldberg learned of the mosaics.[78]

As an expert witness in the case testified, under the circumstances, Goldberg's reaction should have been: "All of the red flags are up, all the red lights are on, all the sirens are blaring."[79]

The district court also listed the steps Goldberg had failed to take to ensure that the seller could convey good title:

- She never contacted the Republic of Cyprus, the Church of Cyprus or the Turkish Republic of Northern Cyprus, even though she had been told that the mosaics had come from Cyprus;
- she failed to contact Interpol; and
- she failed to contact a single disinterested expert on Byzantine art (Goldberg was a dealer in 19th and 20th-century art).[80]

The court also noted that, although Goldberg testified that she had called IFAR in New York, neither she nor IFAR had any documentation of such a call, nor had she requested a formal search by IFAR to determine whether the mosaics had been reported missing or stolen.[81]

The Seventh Circuit affirmed on the basis of Indiana law without addressing the issue of Goldberg's good faith, but it did observe that:

> [T]hose who wish to purchase art work on the international market . . . are not without means by which to protect themselves. Especially when circumstances are as suspicious as those that faced Peg Goldberg, prospective purchasers would do best to do more than make a few last-minute phone calls. In such cases, dealers can (and probably should) take steps such as a formal IFAR search; a documented authenticity check by disinterested experts; a full background search of the seller and his claim of title; insurance protection and a contingency sales contract; and the like. If Goldberg would have pursued such methods, perhaps she would have discovered in time what she has now discovered too late: the church has a valid, superior and enforceable claim to these Byzantine treasures, which therefore must be returned to it.[82]

Another cautionary tale, this one for collectors, is provided by *United States v. An Original Manuscript Dated November 19, 1778*, (the "*Junipero Serra*" case),[83] a forfeiture case brought under 19 U.S.C. § 2609, in which the purchaser of a manuscript stolen from the Mexican National Archives in Mexico City was held not to be entitled to an "innocent owner" defense because (1) he had paid for the manuscript in cash; (2) the transaction had occurred in a hotel in Chicago (the dealer was from Los Angeles); (3) he had not been given any documentation of its authenticity; and (4) he had not asked how the dealer came to possess it—only whether the dealer owned it and was able to sell it.[84]

The court deemed these circumstances "highly suspicious," although it is tempting to think that this conclusion was unduly influenced by the court's knowledge, with the benefit of hindsight, that the manuscript was stolen. In any case, the purchaser was deprived of the manuscript without compensation despite his claims that he had only recently begun to collect documents (and thus was not an expert in the field) and that he was convinced that the deal was "righteous" because the dealer was willing to give him a bill of sale.[85]

Lessons for Art Purchasers

What are the lessons of these cases for art purchasers? The most important lesson is that whether you are in a demand-and-refusal rule jurisdiction (New York) or a discovery rule jurisdiction (most other states), the original owner still may be able to maintain a claim to art stolen decades after the theft, depending on how diligent the owner has been in seeking its return—a standard that varies depending on what a court deems was reasonable under the circumstances. In that regard, the *Guggenheim* court explained that:

> [A]ll owners of stolen property should not be expected to behave in the same way and should not be held to a com-

> mon standard. The value of the property stolen, the manner in which it was stolen, the type of institution from which it was stolen will all necessarily affect the manner in which a true owner will search for missing property.[86]

Similarly, the *Erisoty* court stated that the discovery rule is:

> [F]act-sensitive so as to adjust the level of scrutiny as is appropriate in light of the identity of the parties; what efforts are reasonable for an individual who is relatively unfamiliar with the art world may not be reasonable for a savvy collector, a gallery, or a museum. . . . [T]he standard is not whether defendants did everything that might have been done with the benefit of hindsight, but whether their efforts were reasonable given the facts of the case.[87]

"[M]useums and dealers should expect to be held to the most demanding duty of investigation and will have the most difficulty in claiming to be innocent of suspicious circumstances. The days of 'don't ask, don't tell' for museums, dealers and even wealthy collectors are over."

These variables are largely beyond the control of the purchaser, who has no control over how vigorously an original owner (or his heirs) searches for his property. What the purchaser *can* do is to exercise due diligence before making a purchase. Doing so will increase the chances that the search efforts of the diligent theft victim—the sympathetic plaintiff—will come to the attention of the prospective purchaser, who can thereby avoid walking into a problem.

A recent decision that vividly illustrates how the exercise of due diligence by an art merchant could have avoided litigation is *Wertheimer v. Cirker's Hayes Storage Warehouse, Inc.*,[88] which involved a claim against a New York gallery to recover a Pissarro painting that had been converted in Paris after the war. The court granted summary judgment to the defendant gallery on its laches defense, because it found that the Wertheimer family had done nothing since the 1950s to recover the work and, in particular, had failed to report it missing to the Art Loss Register or to contact any museums or galleries about the painting. Notably, the court granted summary judgment to the gallery on its laches defense despite the fact that the gallery had received conflicting provenances and had not contacted the Art Loss Register to determine whether the painting had been reported stolen.

This seemingly anomalous result appears vulnerable to reversal on appeal. Among other facts damning to the gallery, had it checked the Art Loss Register, as did another dealer contacted about the work, it would have learned that, although the Pissarro was not listed as missing or stolen on the Art Loss Register itself, it *was* listed on a published list of works of art removed from France during the war between 1939 and 1945. The *Erisoty* and *Goldberg* courts surely would have been more critical of the gallery and would not, one suspects, have allowed it to prevail—at least not without a trial—on an equitable defense, which requires that one come into court with "clean hands."[89]

The ready accessibility via the Internet of stolen art databases, including those of the Art Loss Register,[90] Interpol, the FBI and many others that are based in the United States and abroad, gives theft victims powerful new tools for publicizing thefts and recovering their property, while at the same time making it far easier for art purchasers to discover whether a prospective acquisition has been reported missing or stolen. It has been aptly noted that "[t]he steps which [purchasers] should take in checking title correspond to those which a rightful owner should take in putting the public on notice that the work is stolen and no title can be conveyed."[91] Failure to take advantage of these readily accessible sources of information will be held against both theft victims and purchasers by courts engaged in balancing the equities, whether in the context of a laches defense or in applying the discovery rule. Of course, even checking with the Art Loss Register and finding that the work is not listed does not ensure that one will not wind up defending a replevin claim, but it greatly improves the chances, and it will help demonstrate that the original owner was not diligent.

Art purchasers concerned with determining what, for them, is an appropriate level of diligence should be aware that the applicable diligence standard likely will vary depending upon their sophistication and resources. In this regard, it has been suggested that just as courts have recognized a variable standard of diligence for theft victims, purchasers such as auctions houses and museums should be held to a higher standard of due diligence than private purchasers as a means of combating the illicit art market.[92] Thus, museums and dealers should expect to be held to the most demanding duty of investigation and will have the most difficulty in claiming to be innocent of suspicious circumstances. The days of "don't ask, don't tell" for museums, dealers and even wealthy collectors are over.

Indeed, as the *Junipero Serra* case demonstrates, proceeding in the face of what arguably are indications of a shady deal can be perilous even for an avowedly unsophisticated art purchaser.

An exhaustive investigation of title is not necessary for every art purchase. If one is buying directly from the artist or from the artist's estate, no investigation is required. Moreover, the private collector does not have the same obligation to investigate title as does an art merchant; he should, however, ensure that the art merchant has made appropriate inquiries. Today, purchasers from major auction houses can safely assume that the works have been vetted with the Art Loss Register prior to sale. Similarly, many galleries that deal in older works of art that were not consigned directly by the artist routinely vet works through the Art Loss Register. Purchasers from reputable galleries need not conduct independent provenance research if they receive adequate assurances and documentation from the gallery of its ability to convey good title.

Having said that, some general rules of prudent conduct for all prospective purchasers are the following:

- Know whom you are dealing with; assure yourself that the dealer has a good reputation.
- Do not assume that art purchased from an art merchant is not stolen without seeing a detailed provenance. This is especially important with respect to antiquities, Old Master paintings, and works by Impressionists and modern masters—the latter being the so-called "degenerate art" that was looted and sold in great numbers by the Nazis. Find out what the dealer did to research the provenance. Gaps in provenance during and after World War II, in particular, should arouse red flags, as should the presence on the provenance of dealers known to have dealt with the Nazis.[93]
- Obtain a bill of sale identifying the work by artist, title, medium and dimension, and noting any damage or restoration.
- Obtain provenance documentation, including relevant dates, if known, and an explanation of any gaps in the documentation.
- Insist on receiving a warranty of good title that includes indemnification by the seller for any damages or loss caused by breach of the warranty, including responsibility for the purchase price and legal fees. Although a warranty will not give one the right to retain stolen art, it will provide a clear basis for legal recourse against the seller should the owner bring a claim. It also will buttress the purchaser's claim of good faith.
- Be attentive to circumstances such as (a) damage to the work, which may indicate that it was taken surreptitiously and concealed in transit; (b) a request for payment in cash, which, again, suggests a desire to keep the transaction under the radar screen; (c) a lack of a bill of sale or other documentation; and (d) a suggestion that the transaction be concluded in an inconspicuous place such as a hotel room or an airport lounge. This may be perfectly reasonable if the dealer is from out of town, but it also may indicate an illicit transaction and it is susceptible to being interpreted as suspicious, should the work turn out to have been stolen.
- Where the provenance is not airtight, contact the Art Loss Register and, where appropriate, other sources such as experts in the field (scholars, dealers, curators) and catalogues of the artist's works.
- For a major purchase for which a provenance gap or suspicious circumstances exist, consider retaining a firm that specializes in fine art due diligence, such as Trans-Art International in Washington, D.C.

Conclusion

Purchasing fine art can be a risky proposition. The legal risks are magnified by common-law doctrines that permit theft victims to recover art many years after the theft by tolling the statute of limitations either (1) until the owner demands that the work be returned and is refused (the New York rule) or (2) until the owner discovers, or should have discovered through reasonable diligence, the possessor of the stolen property (the rule in most other jurisdictions).

New investigative tools, notably stolen art databases, have made it easier both for theft victims to publicize missing works and for prospective purchasers to determine whether a work offered for sale has been reported missing or stolen. Whether a litigant has taken advantage of these and other readily accessible resources bears importantly on how courts will evaluate his equitable claim to stolen art, whether he be a theft victim seeking to recover the work or a claimed good-faith purchaser seeking to retain it.

If the theft victim has been diligent in publicizing the theft in a reasonable manner and making appropriate inquiries over the years, he is almost certain to prevail in a replevin claim even as against a good-faith purchaser, regardless of the jurisdiction in which the claim is adjudicated. However, even where the owner has been diligent, the prospective art purchaser, by exercising due diligence, should discover the title problem before making the acquisition and thereby avoid buying a litigation. If due diligence by the purchaser does not turn up a problem, the fact that appropriate inquiries were made will constitute evidence of good faith should a claim be brought and a court be required to balance the equities between the innocent purchaser and a theft victim who has been dilatory in pursuing his property.

Endnotes

1. A good source of international news regarding art thefts, as well as information regarding museum security, protection of cultural property and related issues is the Museum Security Network listserve. One can register for this valuable service, which is based in the Netherlands, through the Museum Security Network Web site at http://www.museum-security.org.
2. *O'Keefe* v. *Snyder*, 83 N.J. 478, 497, 416 A.2d 862, 872 (1980).
3. *See* Roy S. Kaufman, ed., *Art Law Handbook* 283 (2000); Marilyn E. Phelan, *Scope of Due Diligence Investigation in Obtaining Title to Valuable Artwork*, 23 Seattle U. L. Rev. 631, 633 n.2 (2000).
4. Kaufman, *supra* note 3, at 283.
5. Holocaust art claims, as well as claims involving excavated antiquities, raise distinct legal and moral issues that are beyond the scope of this article. For example, many European countries have passed legislation dealing specifically with the restitution of art stolen from Jewish families during the Holocaust period. For an online resource relating to Holocaust art that includes links to these national laws as well as to databases of art looted from Jewish owners, museum provenance research projects and other Holocaust art-related resources, see the "Spoliation of Jewish Cultural Property" Web site created by the UNESCO-ICOM Information Centre, available at http://www.icom.org/spoliation.
6. *Id.* at 319.
7. *See, e.g.*, *Kunstsammlungen Zu Weimar v. Elicofon*, 536 F. Supp. 829 (E.D.N.Y. 1981), *aff'd*, 678 F.2d 1150 (2d Cir. 1982) (two Dürer portraits); *DeWeerth v. Baldinger*, 658 F. Supp. 688 (S.D.N.Y.), *rev'd*, 836 F.2d 103 (2d Cir. 1987) (Monet painting); *United States v. Meador*, 138 F.3d 986 (5th Cir. 1998) (artifacts from church treasury in Quedlinburg, Germany, including ninth-century manuscript and 16th-century prayer book).
8. *O'Keefe*, 83 N.J. at 497, 416 A.2d at 872.
9. *Porter v. Wertz*, 68 A.D.2d 141, 149, 416 N.Y.S.2d 254, 259 (1979), *aff'd on other grounds*, 53 N.Y.2d 696, 421 N.E.2d 500, 439 N.Y.S.2d 105 (1981).
10. Phelan, *supra* note 3, at 633.
11. *See* Ashton Hawkins, Richard A. Rothman & David B. Goldstein, *A Tale of Two Innocents: Creating an Equitable Balance Between the Rights of Former Owners and Good Faith Purchasers of Stolen Art*, 64 Fordham L. Rev. 49, 49 n.5 (1995).
12. *See, e.g.*, *O'Keefe*, 83 N.J. at 488, 416 A.2d at 867; *Elicofon*, 536 F. Supp. at 833; Hawkins, Rothman & Goldstein, *supra* note 11, at 50.
13. *See, e.g.*, *The Greek-Orthodox Patriarchate of Jerusalem v. Christie's, Inc.*, No. 98 Civ. 7664, 1999 WL 673347, at *6 (S.D.N.Y. Aug. 30, 1999) (applying French law and granting summary judgment for defendants on ground that no genuine issue of material fact existed as to whether French purchaser had possessed stolen manuscript in a "continuous and uninterrupted, peaceful, public, unequivocal" manner as owner for 30 years, the limitations period under article 2262 of the French Civil Code for bad-faith purchasers). Article 2279 of the French Civil Code provides that if the acquisition was made in good faith, an action to recover chattel is time-barred unless commenced within three years of defendant's acquisition of the property. *See Warin v. Wildenstein & Co., Inc.*, No. 115143/99, 2001 WL 117493 (S. Ct. N.Y. Co. IAS Part 48 Sept. 4, 2001) (finding factual issues as to whether manuscripts were acquired in good faith and possessed openly and publicly).
14. *See, e.g.*, *O'Keefe*, 83 N.J. at 418, 416 A.2d at 872; *Autocephalous Greek-Orthodox Church of Cyprus v. Goldberg & Feldman Fine Arts, Inc.*, 717 F. Supp. 1374, 1391-93 (S. D. Ind. 1991), *aff'd*, 917 F.2d 278 (7th Cir. 1990). In *Goldberg*, the district court, applying Indiana law, held that the plaintiff must exercise due diligence to investigate the claim and discover the fraud in order to invoke the doctrine of fraudulent concealment. 717 F. Supp. at 1392.
15. *See, e.g.*, *Elicofon*, 678 F.2d at 1163.
16. 77 N.Y.2d 311, 569 N.E.2d 426, 567 N.Y.S.2d 623 (1991).
17. Under New York law, the statute of limitations for replevin is three years. N.Y. Civil Practice Law & Rules § 214(3).
18. *See Gillet v. Roberts*, 57 N.Y. 28, 33 (1874). This rule was first articulated by a New York court in a stolen art case in *Menzel v. List*, 22 A.D.2d 647, 253 N.Y.S.2d 43 (1st Dep't 1964), *on remand*, 49 Misc. 2d 300, 304, 267 N.Y.S.2d 804, 809 (Sup. Ct. N.Y. Co. 1966), *modified as to damages*, 28 A.D.2d 516, 279 N.Y.S.2d 608 (1967), *rev'd as to modifications*, 24 N.Y.2d 91, 246 N.E.2d 742, 298 N.Y.S.2d 979 (1969).
19. 77 N.Y.2d at 315, 569 N.E.2d at 427, 567 N.Y.S.2d at 624.
20. 77 N.Y.2d at 315, 569 N.E.2d at 428, 567 N.Y.S.2d at 625.
21. 77 N.Y.2d at 316, 569 N.E.2d at 428, 567 N.Y.S.2d at 625.
22. *Solomon R. Guggenheim Found. v. Lubell*, 153 A.D.2d 143, 149-50, 550 N.Y.S.2d 618, 622 (1st Dep't 1990).
23. 77 N.Y.2d at 317, 569 N.E.2d at 429, 567 N.Y.S.2d at 626.
24. 77 N.Y.2d at 318, 569 N.E.2d at 430, 567 N.Y.S.2d at 627.
25. 77 N.Y.2d at 320, 569 N.E.2d at 431, 567 N.Y.S.2d at 628.
26. *Id.*
27. 77 N.Y.2d at 321, 569 N.E.2d at 431, 567 N.Y.S.2d at 628.
28. *Id.* The court also held that the burden of proving that the work was not stolen, which the Appellate Division had held was an existing issue of fact, rested with Mrs. Lubell, the defendant.
29. *Id.*
30. 153 A.D.2d at 152, 550 N.Y.S.2d at 623. The case was settled before trial. Mrs. Lubell and the two gallery defendants reportedly agreed to pay the Guggenheim $212,000 in damages in exchange for Lubell retaining possession of and obtaining title to the painting. *See* Hawkins, Rothman & Goldstein, *supra* note 3, at 59 n.56.
31. 836 F.2d 103 (2d Cir. 1987).
32. *Id.* at 108 ("[W]e believe that the New York courts would impose a duty of reasonable diligence in attempting to locate stolen property, in addition to the undisputed duty to make a demand for return within a reasonable time after the current possessor is identified.").
33. *Id.* at 110. In this respect, the Second Circuit's ruling was consistent with its earlier ruling in *Elicofon*, 678 F.2d at 1165, where it affirmed the district court's finding that the plaintiff museum had been reasonably diligent in its efforts to locate stolen Dürer paintings and thus had not unreasonably delayed in demanding their return.
34. *Id.* at 105.
35. *Id.* at 111-12.
36. *Id.* at 112.
37. *Id.* at 111.
38. *Id.* at 105.
39. *Id.* at 112.

40. *Id.* at 108-09.

41. 77 N.Y.2d at 318, 569 N.E.2d at 430, 567 N.Y.S.2d at 627 (demand and refusal rule "affords the most protection to the true owners of stolen property").

42. *See Robins Island Preservation Fund, Inc. v. Southold Dev. Corp.*, 959 F.2d 409, 423 (2d Cir. 1992), *vacated on other grounds*, 891 F.2d 401 (2d Cir. 1989).

43. *See, e.g.*, *Republic of Turkey v. Metropolitan Museum of Art*, 762 F. Supp. 44, 46-47 (S.D.N.Y. 1990) (factual issue as to whether museum was prejudiced by plaintiff's delay in making a demand precluded summary judgment). *See also* Hawkins, Rothman & Goldstein, *supra* note 11, at 68-69, 82-83.

44. *But see* Hawkins, Rothman & Goldstein, *supra* note 11, at 66 (arguing that demand and refusal rule discourages investigation by purchasers because it treats a good-faith purchaser worse than a thief or bad-faith purchaser by preserving owner's claim longer).

45. *See Wertheimer v. Cirker's Hayes Storage Warehouse*, N.Y.L.J., Oct. 9, 2001, at 17 (S. Ct. N.Y. Co. IAS Part 25) (finding that Wertheimer family "literally did nothing to recover the Pissarro painting since the early 1950s"); *see also Greek-Orthodox Patriarchate*, 1999 WL 673347, at *10 (an alternative analysis under New York law, finding that Patriarchate's delay of 70 years after theft of 10th-century manuscript in coming forward with ownership claim was not excusable and prejudiced defendants' ability to prove ownership).

46. *See* cases cited *supra* note 45. Similar factors were identified in *DeWeerth* as justification for finding DeWeerth's claim untimely for lack of due diligence. 836 F.2d at 112 (citing death of only witness who could verify what happened to the Monet in 1945, loss of key documents, and fading of memories).

47. *See generally* Hawkins, Rothman & Goldstein, *supra* note 3.

48. 83 N.J. 478, 416 A.2d 862 (1980).

49. 83 N.J. at 485-86, 416 A.2d at 866.

50. 83 N.J. at 491, 416 A.2d at 869.

51. 83 N.J. at 497, 416 A.2d at 872.

52. 83 N.J. at 493, 416 A.2d at 870.

53. 83 N.J. at 498, 416 A.2d at 872.

54. 83 N.J. at 500, 416 A.2d at 873.

55. 83 N.J. at 499, 416 A.2d at 873.

56. 83 N.J. at 498, 416 A.2d at 872.

57. *Id.* (emphasis added).

58. 83 N.J. at 498-99, 416 A.2d at 873.

59. 83 N.J. at 499, 416 A.2d at 873.

60. 1995 WL 91406 (E.D. Pa. 1995), *aff'd*, 1996 U.S. App. LEXIS 14999 (3d Cir. Apr. 30, 1996).

61. *Id.* at *3.

62. *Id.* at *13.

63. *Id.*

64. *Id.* at *12.

65. *Id.* at *14.

66. *Id. See also Guggenheim*, 153 A.D.2d at 153, 550 N.Y.S.2d at 624 (citing principle that persons "deal with the property in chattels or exercise acts of ownership over them at their peril").

67. *Id.* at *15.

68. The court noted that the Erisotys could pursue a *quantum meruit* claim against the Riziks and also could pursue claims against the auctioneer. *Id.* at *14.

69. This definition of good faith comports with that adopted in the Convention on Cultural Property Implementation Act, 19 U.S.C. § 2609, which provides that the possessor of "stolen cultural property" (as defined in 19 U.S.C. § 2607) has a right to compensation if the stolen object was purchased "for value without knowledge or reason to believe it was stolen."

70. 68 A.D.2d 141, 416 N.Y.S.2d 254 (1979), *aff'd on other grounds*, 53 N.Y.2d 696, 421 N.E.2d 500, 439 N.Y.S.2d 105 (1981).

71. U.C.C. § 2-403(2) provides that the "entrusting of possession of goods to a merchant who deals in goods of that kind gives [the merchant] power to transfer all rights of the entruster to a buyer in the ordinary course of business."

72. 68 A.D.2d at 147, 416 N.Y.S.2d at 257-58.

73. 68 A.D.2d at 149, 416 N.Y.S.2d at 259.

74. *Id.*

75. 68 A.D.2d at 148, 416 N.Y.S.2d at 258.

76. 717 F. Supp. 1374 (S.D. Ind. 1989), *aff'd*, 917 F.2d 278 (7th Cir. 1990).

77. 717 F. Supp. at 1389.

78. 717 F. Supp. at 1400-03.

79. *Id.*

80. *Id.* at 1403-04.

81. *Id.* at 1403.

82. 917 F.2d at 294.

83. No. 96 CN. 6221 (LAP), 1999 WL 97894 (S.D.N.Y. Feb. 22, 1999).

84. *Id.* at *7.

85. *Id.*

86. 77 N.Y.2d at 320, 567 N.Y.S.2d at 628.

87. 1995 WL 91406, at *14.

88. N.Y.L.J., Oct. 9, 2001, at 17 (S. Ct. N.Y. Co. IAS Part 25).

89. *See*, *e.g.*, *Uciechowski v. Ehrlich*, 221 A.D.2d 866, 868, 634 N.Y.S.2d 251, 252 (3rd Dep't 1995) (party that comes into court with unclean hands should not be permitted to assert equitable defense of laches); *Coger v. Cusumano*, 191 A.D.2d 493, 495, 594 N.Y.S.2d 332, 333 (2d Dep't 1993) (same).

90. The Art Loss Register, which has offices in London and New York, maintains a database of art objects reported as stolen based on reports compiled by IFAR since 1977 from a variety of sources, including the FBI, Interpol, local and state police, art dealers, museums and private citizens. *See* Phelan, *supra* note 3, at 717. The Art Loss Register Web site is at http://www.artloss.com.

91. Laura W. Wertheimer, *The Implications of the O'Keefe Case*, 6 Art & L. 44, 47 (1981) (quoted in Phelan, *supra* note 3, at 715-16).

92. *See* Julia A. McCord, Note, *The Strategic Targeting of Diligence: A New Perspective on Stemming the Illicit Trade in Art*, 70 Ind. L.J. 985 (1995).

93. For a list of "red flag" names—dealers known to have trafficked in art stolen by the Nazis—see Nancy H. Yeide, Konstantin Ainsha & Amy L. Walsh, *The AAM Guide to Provenance Research* 293-96 (2001).

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The Thin Line Between Love and Hate: An Artist's Battle Against the Music Industry

By Eleanor M. Lackman

With all the hot talk about Napster and other file-sharing devices, "piracy" has become the music industry's battle cry. However, some of the recording artists are not joining in the anti-Internet war. Many artists who have signed agreements, under which they know they will either end up owing money to a major label or hardly making a profit, have begun to look at Internet file-sharing as a way to disseminate music to fans and potentially earn more money in direct sales. Because one of the primary, if not the biggest, functions of the major label is to distribute music, the Internet temptation has thus made musicians only more restless about the contracts to which they have bound themselves indefinitely, and they are now responding with new challenges and new ammunition. Record labels should therefore be wary of focusing too much on the outside software developers and instead look within the industry: While downloaders are one threat to the record labels, the artists themselves are beginning to shake up the music industry by using lawsuits to challenge their long-term agreements. While in the past such suits have been unsuccessful, the artists recently received a major victory: A judge in the Superior Court of Los Angeles allowed rock artist Courtney Love to proceed with her claim that section 2855(b) of the California Labor Law should not be enforced against her to tie her to a contract running longer than seven years.[1] The result not only raises a compelling legal issue facing the music industry, but it is one of major public importance: A ruling against section 2855(b) could determine whether the record industry's current practices will continue, as thousands of artists may get the chance to leave or avoid big label deals in favor of direct promotion to their fans.

The history of section 2855 goes back to the early years of Hollywood, when movie studios used a method of over-promoting actors to near-godlike status for the purpose of increasing box office revenues. However, to recoup the studios' promotional efforts, the system turned into an exploitative practice of signing new talent to incredibly long contracts, typically lasting over 10 years and at salaries below market value.[2] Eventually, the California legislature intervened to protect the actors by enacting a seven-year limitation on all forms of personal service. Section 2855 of the California Labor Code states: "(a) Except as otherwise provided in subdivision (b), a contract to render personal service . . . may not be enforced against the employee beyond seven years from the commencement of service under it . . . ."[3]

Section 2855 is often referred to as the "de Haviland rule," after the major case in which the courts gave affirmation and clarification to the provision. In *de Haviland v. Warner Brothers Pictures*, a producer said that section 2855 placed the limitation at seven years of *actual service*, and thus he was acting appropriately by extending an actress' contract beyond seven years to make up for suspensions and illness during their agreement.[4] Although the breaches were de Haviland's fault, the court held that the legal history and language of the Code required that the maximum amount of time an agreement for personal service could last was seven calendar years and not seven years of service.[5]

> *"Record labels should . . . be wary of focusing too much on the outside software developers and instead look within the industry: While downloaders are one threat to the record labels, the artists themselves are beginning to shake up the music industry by using lawsuits to challenge their long-term agreements."*

However, in 1987, the major labels lobbied to add the above-referenced subdivision (b) to section 2855, which specifically singles out recording artists.[6] It states that:

> (b) Notwithstanding subdivision (a):
>
> (1) Any employee who is a party to a contract to render personal service in the production of phonorecords in which sounds are first fixed . . . may not invoke the provisions of subdivision (a) without first giving written notice to the employer . . ., specifying that the employee from and after a future date certain specified in the notice will no longer render service under the contract by reason of (a) . . .
>
> (3) In the event a party to such contract is, or could contractually be, required to render personal service in the production of a specified quantity of the phonorecords and fails to render all of

> the required service prior to the date specified in the notice provided in paragraph (1), *the party damaged by the failure shall have the right to recover damages for each phonorecord as to which that party has failed to render service. . . .*[7]

> *"The artists' concerns go beyond time issues; they boil down to industry intricacies that can leave a hit-maker homeless. After taxes, the typical band would be better off if the members instead worked at a 7-Eleven."*

Thus, under the new amendment to section 2855, if an artist cannot produce the required number of albums in seven years and wishes to withdraw from the agreement, the label may sue for damages for the uncompleted albums. No other Californians are subject to this exception.[8] This threat of damages has forced artists to renegotiate their contracts at best; none have been able to successfully terminate their contracts under the seven-year rule,[9] and no California cases have been reported in the past decade that involve the seven-year statute.[10] Those artists that have tried to challenge the rule, such as Don Henley[11] and Metallica,[12] have eventually settled out of court.

In September 2001, the California legislature held an informational hearing to determine how to ease some of the increasing tensions between artists and the labels that have arisen from subdivision (b). Label representatives argued that subdivision (b) is necessary to accommodate the unique nature of the industry. Miles Copeland of I.R.S. Records argued that the statute treats both sides fairly, stating that although the record industry grossed over $41 billion in 2000, much of that turns into the millions of dollars that labels have to spend to develop new artists, most of whom are never profitable.[13] He distinguished the industry from banking, noting that the labels "invest millions of dollars in artists and at the end of it if it doesn't work, they walk, we're stuck holding the bag."[14] The label executives pointed out that bigger-name artists will often let time go by without making records and claim that if their contracts are dissolved after seven years, they will have no incentive to support an operation in which only 5 percent of their artists ever make a profit.[15]

The artists argued that the recording industry's practices are no different from those of the movie studios that section 2855 was designed to temper and that subdivision (b) institutionalizes the labels' arguably unconscionable customs, such as the common practice in the recording industry to obligate musicians to produce more records than they can complete in a seven-year period.[16] For example, the typical deal requires artists to record as many as seven albums in seven years, but the labels usually insist on a two-year gap between releases, so that the earliest an artist can fulfill an agreement is after 14 years—twice as long as intended under the *de Haviland* rule.[17] A. Barry Cappello, attorney for Courtney Love, emphasizes this major problem: "*[N]o one* can write, record, and promote seven albums, film fourteen videos (two per master recording), and make seven tours in seven years."[18] Thus, artists argue, the standard music industry agreement is not only beyond an artist's expectations and thus unconscionable, but also on its face violates section 2855(a).

The artists' concerns go beyond time issues; they boil down to industry intricacies that can leave a hit-maker homeless. After taxes, the typical band would be better off if the members instead worked at a 7-Eleven.[19] After production and video costs, tour support and independent radio promotion, all recoupable out of the artist's royalties, a band that sells a million albums could still end up owing the label money, and, depending on Congress' wavering interpretation of "work for hire," the artist may never own the rights to his or her recordings.[20] Meanwhile, the record company, after manufacturing costs and publishing royalties, makes millions off the platinum-selling record.[21] While the labels emphasize that to them, 95 percent of releases are considered "net losses," attorney Jay Cooper unsympathetically mentions that "they're obviously making an awful lot [of money] from somewhere else."[22] This explains why Toni Braxton declared bankruptcy in 1998 after selling $188 million worth of CDs: Her recording contract only paid her 35 cents per album, which was not enough to cover the labels' advances.[23] The more successful artists also argue that labels should not use section 2855(b) to force them to pay for the risks labels take on untested bands, saying that the labels simply should be more careful before giving a new band a record deal.[24] Courtney Love sees the 95 percent "failure" rate as a result of indiscriminate overproduction: "Of the 32,000 new releases each year, only 250 sell more than 10,000 copies. And less than 30 go platinum."[25] While labels will drop unprofitable artists, artists cannot "fire" the labels, and in an industry where platinum artists declare bankruptcy, it is understandable that the artists who have achieved enough success to recoup their losses and earn their labels some money want some freedom to get out of their very long and often exploitative agreements.

The issue may be out of the control of the California legislature for now, because Courtney Love, a particularly vocal artist, has finally succeeded in getting her case on the court docket. By presenting arguments that section 2855(b) is unconstitutional, her case threatens to turn the record industry on its head. Courtney Love and her band Hole, upset at the lack of promotion given to their last album, *Celebrity Skin*, refused to make any more records for DGC, an offshoot of Geffen Records. When DGC responded with a lawsuit under section 2855(b), charging Love with breach of her 1992 contract that required five more albums, Love countersued in *Geffen Records Inc. v. Love*.[26] At the heart of her suit is a mission to overturn the subdivision (b) exemption from the California seven-year law.[27] In a shocking blow to the labels, Judge Fumiko Wasserman ruled on October 4, 2001 that Love could proceed in her action to get declaratory relief on her claim that section 2855(b) is unconstitutional in practice, as well as on the charge that section 2855(b) makes calculating lost profits (in Love's case, over $17 million) too speculative.[28]

"The current nature of the music industry has led many artists to grow restless, believing that they do not need the major labels because the Internet intrinsically contains new ways to distribute and market music."

Love suggests that section 2855(b) is unconstitutional because it imposes involuntary servitude on the artist and violates the Equal Protection Clause under the Fourteenth Amendment.[29] Universal Music Group (UMG), Geffen's parent company, seeks not only a very large amount of damages, but also a negative injunction against Love, which she argues "would effectively force [her] to work for [the label] until the five allegedly 'required' LPs are delivered."[30] Even if the artist leaves for a new company, Love adds, he or she is still forced in effect to work for the record company, because any profits under a new agreement would be given to the old company as part of the "speculative" damages.[31] Thus section 2855(b) effectively nullifies the California legislature's purposes for enacting section 2855(a), as the artist will be forced in some way to serve the label beyond seven years. Love also argues that section 2855(b) violates equal protection by imposing contractual damages and strict liability on recording artists, with no rational relation to a legitimate governmental interest.[32] "[T]his penalizes the artist for invoking statutory rights under 2855(a), and subjects the artist to coercion amounting to involuntary servitude."[33]

Geffen Records, Inc. v. Love, although at an early stage, presents a major legal threat to the record industry. "No case like this has ever gone to trial," says attorney Don Engel, who has represented artists in similar suits.[34] Cappello agrees, dismissing UMG's argument that section 2855(b) has been enforced since its enactment: "The statute has not 'been enforced' judicially because recording artists have simply caved in to threats . . . *i.e.*, of ruinous lost profit damages."[35] However, Love's situation is different from that of other artists; she has plenty of money from her late husband Kurt Cobain's Nirvana catalog, as well as from a few successful films in which she has starred, and she is aggressively committed to the fight.

If Love succeeds in her suit, the result could be catastrophic for the recording industry as we know it. Such a precedent could potentially allow hundreds of artists to leave their agreements with their record labels and in turn take advantage of opportunities through the Internet.[36] The current nature of the music industry has led many artists to grow restless, believing that they do not need the major labels because the Internet intrinsically contains new ways to distribute and market music. If most artists will never make money off their music anyway, many figure that they can at least get their music out to their fans without being "indentured servants" to the music industry.[37] Love, speaking at the Digital Hollywood Online Entertainment Conference, emphatically illustrated the desperation that many feel: "[I will] allow millions of people to get my music for nothing if they want and hopefully they'll be kind enough to leave a tip if they like it."[38] In addition, if fans want better-quality recordings than those that are available online, artists can sell CDs to them directly over the Internet without having to use a "gatekeeper."[39] The artists would then be able to sell and distribute their music to consumers at much lower prices than the big labels were offering, while these artists could simultaneously potentially earn millions of dollars more than they had before.[40] Thus, under such a system, the labels' arguments about piracy become virtually moot, as they may never get the right to distribute new music in the first place.

Love's success would not only allow some artists to try and reap the benefits of the Internet, but it could benefit all recording artists by ensuring that they will be treated like all others under contracts for personal service in California. According to Love, a ruling in her favor will:

> . . . allow *all* recording artists to exercise their statutory right to terminate a contract after seven years without the threat of damages; give them the right to pursue their lawful profession free

> from unlawful restraints; end their recording companies' standardized system of routine breaches of contract and fraud; and, prevent their recording companies from obtaining unfair and unlawful benefits for the artists' works without proper compensation.[41]

However, Love's dream may just be wishful thinking, no matter who wins. Although Love is pushing to make the California seven-year limitation a model for federal law, until a federal law is enacted, record labels have 49 other states in which they can operate their businesses.[42] Many labels already have offices outside of California. There is no seven-year rule in New York, for example, so labels may assume that if the exemption is repealed, they will just offer contracts out of the New York offices. Also, the California legislature gives a lot of deference to the entertainment industry, which in the last decade has become the state's largest.[43] Therefore, the circumstances suggest that a group of renegade artists will likely have a difficult time persuading the legislature to pass something that could send part of the industry out of California to New York.

However, the U.S. Congress may hear the plight of the artists and take on the issue. Finding the right solution will be extremely difficult, as Congress must weigh both the labels' concerns, such as piracy and unprofitable artists, against the artists' concerns, such as the loss of control of their copyrights and unconscionable contract terms. The best resolution will look to what is best overall for those who are at the heart of the music industry, the artists themselves. If Congress becomes involved in this discussion, it must examine the music industry's practices very carefully to determine just how unfair the typical recording agreement is, and then craft a bill designed to equalize the bargaining power between major labels and wannabe pop stars. Congress must also encourage labels to take more internal responsibility for awarding excessive numbers of deals. However, if too much control is given to the artists, the label system may be obliterated. While to some this may be good riddance, oftentimes the label system is vital to artists starting out who cannot even afford to host a Web site and who cannot rely on soulful ballads to get bank officers to give them loans to finance their recordings.

As millions of Americans buy and download music every day, the ultimate future of the music industry in the wake of a challenge to section 2855(b) in the courts is unclear. Considering the other potentially dangerous issues the industry faces as technology advances, lawmakers must immediately tune in to the struggle and hear the voices of the artists, who may now have more leverage than ever before. A revolution in the music industry is almost certain now, and it will be the responsibility of lawmakers to ensure that it results in the greatest good for those at the heart of the industry, if the industry is to survive.

Addendum

Less than a week after this article was completed, California state Senator Kevin Murray shook the music industry by introducing a bill known as S.1246 in the California legislature. The bill, which has been supported by some serious players (including the AFL-CIO), is designed to repeal the 1987 amendment to section 2855 of the California Labor Code. The bill's intended effect is in essence the same goal that Love is pursuing in her lawsuit.[44] *The bill includes a prohibition of waiver of the seven-year limitation, and it would delete the provisions regarding the production of phonorecords. In other words, the seven-year statute would apply to all workers in California, regardless of their choice of occupation; thus any Californian who is a party to any personal service contract may void the contract after seven years, "without exception or repercussions."*[45] *What makes the situation more serious for the record industry is that the issue has spiraled beyond California and drawn the attention of lawmakers in other states. For example, Representative John Conyers of Michigan recently announced his support for the recording artists' agenda, explaining that if Senator Murray "is successful in repealing the exemption, the labels have threatened to simply shift these contracts to other states. That is why I am planning to introduce legislation that [will] provide federal standards as a backstop and help us avoid a race to the bottom between the states."*[46]

Labels continue to argue that if the seven-year statute is repealed, more money will be channeled into supporting top-selling artists, leaving less money for new artist development. Many record label executives believe that the bill could seriously damage the record industry itself. Most debate has centered on the two major issues of damages and "tacking," or considering a substantial negotiation to restart the seven-year clock, with no set position taken on either issue by either side. To date, attempts at compromise have failed.

For now, hopes that artists had of resolving the arguments in court have been dashed; Judge Wasserman threw out the element of Courtney Love's claim that implicated the seven-year statute for treating recording artists unfairly. The decision of May 30 still allowed Love's other claims of breach of contract, breach of fiduciary duty, fraud and faulty accounting. Love's attorney maintains the argument that section 2855(b) of the California Labor Code is unconstitutional and is prepared to appeal the dismissal of the seven-year claim at the close of the trial.[47] *The court set the trial for June 11, barring settlement beforehand.*

Endnotes

1. *Geffen Records, Inc. v. Courtney Love*, No. BC223364 (Cal. Super. Ct. Sept. 6, 2001).
2. Donald E. Biederman, et. al., *Law and Business of the Entertainment Industries* 78 (4th ed. 2001).
3. California Labor Code § 2855.
4. 153 P.2d 983 (Cal. Ct. App. 1944).
5. *Id.* at 986.
6. *Love Wins Major Victory and Right to Proceed in Universal Lawsuit* (Oct. 4, 2001) [hereinafter *Love Wins*], *at* http://biz.yahoo.com/bw/011004/40590_1.html.
7. Cal. Lab. Code § 2855 (emphasis added).
8. *See Love Wins*, *supra* note 6.
9. *Id.*
10. Bernard Baur, *Tough Love*, *at* http://www.thesingersworkshop.com/article26.html (last visited Jan. 2, 2002).
11. *Geffen Records, Inc. v. Henley*, No. BC073696 (Cal. Super. Ct. 1994).
12. *We're Only In It For the Music v. Elektra Entertainment*, No. 9644007 (Cal. Super. Ct. 1996).
13. Anthony York, *Courtney Love's Big Sacramento Adventure* (Sept. 6, 2001), *at* http://www.salon.com/ent/music/feature/2001/09/06/love_in_sacto/.
14. *Id.*
15. *Id.*
16. *The Most Influential People in Electronic Business*, BusinessWeek Online, May 14, 2001 [hereinafter *Most Influential*], *available at* http://www.businessweek.com/magazine/content/01_20/b3732653.htm.
17. *See* Baur, *supra* note 10.
18. Def.'s Opp'n to Mot. to Strike at 4, *Geffen Records* (No. BC223364).
19. Steve Albini, *The Problem With Music*, Maximum Rock and Roll, June 1994, at 133.
20. *See* York, *supra* note 13.
21. *Id.*
22. *See* Baur, *supra* note 10.
23. *See* York, *supra* note 13.
24 *Id*.
25. Courtney Love, *Courtney Love Does the Math* (June 14, 2000), *at* http://www.salon.com/tech/feature/2000/06/14/love/.
26. *See Geffen Records*, *supra* note 1.
27. *See* Love, *supra* note 25.
28. *Id.*
29. Def.'s Opp'n to Dem. at 4, *Geffen Records* (No. BC223364).
30. *Id.*
31. *Id.* at 5.
32. *Id.*
33. *Id.* at 7.
34. *See* Baur, *supra* note 10.
35. Def.'s Opp'n to Dem. at 7, *Geffen Records* (No. BC223364).
36. *See Most Influential*, *supra* note 16.
37. *See* Love, *supra* note 25.
38. *Id.*
39. *Id.*
40. *See Most Influential*, *supra* note 16.
41. Def.'s Opp'n to Mot. to Strike at 8-9, *Geffen Records* (No. BC223364).
42. *See* York, *supra* note 13.
43. *Id.*
44. S.1246, as amended Feb. 26, 2002, reads:

    > Section 1. It is the policy of the State of California that no employee shall be contractually bound to an employer beyond seven years. The Legislature confirms the holding in *De Haviland v. Warner Bros. Pictures* (1944) 67 Cal.App.2d 225, that seven years is fixed as the maximum time for which employees "may contract for their services without the right to change employers or occupations." Thereafter, they may change if they deem it necessary or advisable in order to employ their abilities to "the best advantage and for the highest obtainable compensation." In accordance with this holding, it is the policy of this state that this protection may not be waived by an employee and that employees as a group have the right to change employers or occupations after seven years. The Legislature finds that if it were possible for an employee to waive by agreement his rights under the law, the law would be meaningless. Therefore, the Legislature declares that a contract for personal services, whether for general services or "exceptional" services as described in *De Haviland v. Warner Bros. Pictures*, supra, may only be enforced for a term not exceeding seven years from the commencement of services under it. Furthermore, it is the policy of the state that these protections be afforded to each and every resident of the State of California and that this requirement may not be waived by contract. Section 2. A contract to render personal service, other than a contract of apprenticeship as provided in Chapter 4 (commencing with Section 3070), may not be enforced against the employee beyond seven years from the commencement of service under it. Any contract, otherwise valid, to perform or render service of a special, unique, unusual, extraordinary, or intellectual character, which gives it peculiar value and the loss of which can not be reasonably or adequately compensated in damages in an action at law, may nevertheless be enforced against the person contracting to render the service, for a term not to exceed seven years from the commencement of service under it. If the employee voluntarily continues to serve under it beyond that time, the contract may be referred to as affording a presumptive measure of the compensation.

45. *Seven Year Statute Bill Revised*, Hits Daily Double, Feb. 22, 2002, *available at* http://www.hitsdailydouble.com.
46. *The Political Heat is On*, Hits Daily Double, Feb. 21, 2002, *available at* http://www.hitsdailydouble.com.
47. *Courtney Love Ready To Face Geffen with Less Ammunition*, MTV Online, May 31, 2002, *available at* http://www.mtv.com.

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The Right of Privacy: The Three Stooges Teach Tiger Woods a Lesson

By Timothy B. Parlin and Martin D. Edel

In right-of-publicity cases, when a case is on the borderline between "news" and "entertainment" on the one hand and "commercialization of an athlete's persona" on the other hand, the court should focus on exactly what is alleged to be the "message" of the defendant's use. If the property right inherent in the athlete's identity is merely used as a vehicle to attract attention to the defendant's news or entertainment "message," then the property rights of the right of publicity should outweigh the claim to free speech. The argument that the athlete's identity is particularly well suited as an involuntary vehicle for the constitutionally protected "message" should be rejected.[1]

Introduction

The District Court in *ETW Corp. v. Jireh Publishing, Inc.*[2] held that a painting created by "sports artist" Rick Rush, which consisted of a montage of likenesses of professional golfer Eldridge "Tiger" Woods and was reproduced in 5,000 prints[3] without Woods' consent, was a work of art and therefore protected under the First Amendment. This case, which is presently *sub judice* before the U. S. Court of Appeals for the Sixth Circuit,[4] presents a potential conflict between Tiger Woods' right to protect the value of his name and the First Amendment right of Rick Rush to use Tiger Woods' likeness as an expressive work on original art and reproductions.[5]

In an opinion released 13 months after the District Court's opinion in *Jireh Publishing*, the California Supreme Court in *Comedy III Productions, Inc. v. Gary Saderup, Inc.*,[6] rejected the District Court's absolutist approach. It held that the right of publicity and the First Amendment are not absolute. Instead, the California Supreme Court balanced the right of publicity against the protections of the First Amendment. Borrowing from copyright's fair use defense, *Comedy III* held that when an artist is confronted with a right-of-publicity challenge, the artist may raise an affirmative defense that the work is protected by the First Amendment to claim that the work contains significant transformative elements or that the value of the work does not derive primarily from the depicted celebrity's fame.[7] The court explained: "[W]hen a work contains significant transformative elements, it is not only especially worthy of First Amendment protection, but it is also less likely to interfere with the economic interests protected by the right of publicity."[8]

This standard provides an initial, but incomplete, framework for analyzing the inherent tension between the First Amendment and the right of publicity. The *Comedy III* court places too much weight on the subjective opinions of courts regarding whether or not an artist has brought sufficient creative elements to bear, in order to satisfy the transformative test.

This article proposes that in right-of-publicity cases, courts should reject any absolutist approach either to the First Amendment or to the right of publicity. Instead, a court must balance the competing concerns through a more objective analysis than that applied by the *Comedy III* court. The test we propose would borrow additional elements from intellectual property law to protect the commercial value of a public figure, such as Tiger Woods, while minimizing the intrusion upon the tenets of the First Amendment.

Applying the proposed test to the facts of *Jireh Publishing*, we conclude that affirmation of the District Court's decision concerning the reproduction of Rick Rush's original work of art would have a detrimental economic impact on the ability of sports stars like Tiger Woods to control their publicity rights—rights in which they have so heavily invested.

ETW Corp. v. Jireh Publishing

Factual Background

Plaintiff ETW Corp. ("ETW") brought an action against Jireh after Jireh sold a print allegedly using the name, image or likeness of Tiger Woods.[9] ETW alleged, *inter alia*, a violation of Tiger Woods' right of publicity in violation of Ohio common law.[10]

ETW (the name is derived from Tigers Woods' initials) was incorporated in 1996 to control and manage Tiger Woods' name, image, likeness, marks and right of publicity.[11] Tiger Woods assigned to ETW the exclusive right to use his image, likeness, signature and all other publicity rights.[12] In 1998, ETW received U.S. Trademark Registration No. 2,194,381 for the mark "TIGER WOODS" for use in connection with "**art prints**, calendars, mounted photographs, notebooks, pencils, **posters**, trading cards and unmounted photographs."[13] Nike is perhaps the company most associated with Tiger Woods and, pursuant to a license, has used Woods' name and likeness in connection with, among other things, golf equipment, clothing,[14] posters bearing Tiger Woods' likeness, including various posters featuring photographs of Tiger Woods at different stages of his renowned golf swing[15] and an art print of a painting entitled "Masterpiece," featuring Tiger Woods holding the position at the end of his swing during a critical moment in the 1997 Masters.[16]

Jireh is the exclusive publisher for the artwork of "sports artist" Rick Rush.[17] Rush created the print entitled "The Masters of Augusta." The print features a montage of the likenesses of Tiger Woods and is accompanied by a narrative that characterizes it as featuring Tiger Woods in the center "displaying that awesome swing" and flanked "by his caddie . . . and final round player partner's caddie . . . "[18] Several prior winners at Augusta, notably Arnold Palmer and Jack Nicklaus, appear as images in the background in front of a leader scoreboard. The bottom of the print contains the language, "The Masters of Augusta," "Rick Rush," and "Painting America through Sports."[19] Mr. Rush's signature appears in the bottom right corner of the print. In another insert, Jireh certifies that it is a "limited edition" print. The outside of the white envelope containing the print has in large letters, "Rick Rush—Painting America Through Sports" and a very large duplication of Rush's signature. Under the back flap of the envelope are the words in smaller print, "Masters of Augusta, Tiger Woods."[20]

Rush has been painting America through sports for over 25 years. His works have featured sports legends such as Michael Jordan, Magic Johnson, Sammy Sosa, Mark McGwire and Jack Nicklaus.[21] In some instances, Jireh obtained licenses for the use of the images of the celebrities in its commercial prints, and sometimes it did not.[22] However, in the case of ETW, Jireh not only failed to obtain a license for the use of the likeness of Tiger Woods, but also misrepresented to its own distributors that it had, in fact, obtained such a license for the use of his image in the "Masters of Augusta."[23]

District Court Opinion

The District Court determined that the issue was whether Rick Rush's print was a form of speech protected by the First Amendment.[24] The court began its analysis by discussing Ohio's common-law recognition of the right of privacy as found in *Zacchini v. Scripps-Howard Broadcasting Co.*[25] Quoting *Zacchini*, the District Court noted that, "[o]ne who appropriates to his own use or benefit the name or likeness of another is subject to liability to the other for invasion of his privacy, and the use or benefit need not be necessarily commercial."[26]

The District Court also noted that the right of publicity was limited by the First Amendment.[27] The court discussed three cases cited by ETW that involved claims alleging protection by the First Amendment,[28] and determined that they provided little guidance toward resolving the issue before the court.[29]

Next, the District Court addressed the issue of commercial speech. The court concluded that the artwork at issue, with its accompanying narrative, was a type of expression traditionally protected by the First Amendment. The Court found the fact that the print was sold was irrelevant to whether First Amendment protection was warranted.[30]

Finally, the District Court addressed ETW's argument that its case was similar to *National Football League Properties v. Playoff Corp* ("*NFL Properties*").[31] *NFL Properties* was a trademark infringement case involving a plan to market football trading cards. The District Court in *Jireh* noted that the *NFL Properties* court rejected a defense of newsworthiness,[32] holding that to permit the defense would "allow any infringer to deliver 'newsworthy' information on a T-shirt or other commercial article while at the same time displaying trademarks belonging to another. . . ."[33] The *Jireh* District Court concluded that "[d]efendant herein does not pretend to deliver newsworthy information via a T-shirt but, rather, seeks to create an art print expressing his own original message."[34] It distinguished the *NFL Properties* decision and upheld Jireh's constitutional claim. The District Court granted Jireh's motion for summary judgment on the right-of-publicity claim.[35]

Comedy III Productions v. Saderup

Factual Background and Lower Court Decisions

Comedy III Productions owns the rights to images of the comedy act known as The Three Stooges, which performed in vaudeville and in movie shorts from the 1920s to the 1940s.[36] Gary Saderup is an artist who has created charcoal drawings of celebrities for over 25 years.[37] Through his company, Gary Saderup, Inc., Saderup reproduces these charcoal drawings both as lithographic prints and as silkscreen images on T-shirts.[38]

Gary Saderup, Inc., without the consent of Comedy III, reproduced and sold Saderup's charcoal drawings of The Three Stooges for lithograph prints and T-shirts.[39] As noted by the California Supreme Court, "[t]hese lithographs and T-shirts did not constitute an advertisement, endorsement, or sponsorship of any product."[40] Comedy III brought suit against Saderup and Gary Saderup, Inc., seeking damages and injunctive relief for violation of California's right of publicity under California Civil Code section 990, and for related business torts.[41]

Former section 990 of the California Civil Code, subsequently renumbered, with amendments, as California Civil Code section 3344.1, provides:

> [A]ny person who uses a deceased personality's name, voice, signature, photograph, or likeness, in any manner, on or in products, merchandise, or goods, or for purposes of advertising or selling or soliciting purchases of, products, merchandise, goods, or services, without prior consent from the person or persons specified in subdivision (c), shall be liable for any damages sustained by the person or persons injured as a result thereof.

The trial court found for Comedy III, ruling that Saderup's lithographs and T-shirts were "not protected by the First Amendment."[42] The court also entered judgment against Saderup for the $75,000 in Saderup's profits, plus attorneys' fees of $150,000.[43] The court issued a permanent injunction restraining Saderup from violating the statute by use of any likeness of The Three Stooges in lithographs, T-shirts, "or any other medium by which [Saderup's] art work may be sold or marketed."[44] The injunction further prohibited Saderup from "[c]reating, producing, reproducing, copying, distributing, selling or exhibiting any lithographs, prints, posters, t-shirts, buttons, or other goods, products or merchandise of any kind, bearing the photograph, image, face, symbols, trademarks, likeness, name, voice or signature of The Three Stooges or any of the individual members of The Three Stooges."[45] The sole exception to the injunction was Saderup's original charcoal drawing from which the reproductions at issue were made. Saderup appealed.[46]

The Court of Appeals struck down the injunction, but otherwise affirmed the judgment as modified, upholding the award of damages, attorneys' fees and costs.[47] The Court of Appeals rejected Saderup's contention that his conduct did not violate the terms of the statute and, in any event, was protected by the constitutional guaranty of freedom of speech.[48]

California Supreme Court Opinion

The California Supreme Court affirmed, holding that Saderup's conduct violated Comedy III's right of publicity.

The court framed the issue as the tension between the right of publicity and the First Amendment protection for expressive work. The court rejected the notion that the T-shirts were forms of commercial speech. It wrote:

> [T]he present case does not concern commercial speech. As the trial court found, Saderup's portraits of The Three Stooges are expressive works and not an advertisement for or endorsement of a product. Although his work was done for financial gain, "[t]he First Amendment is not limited to those who publish without charge. . . . [An expressive activity] does not lose its constitutional protection because it is undertaken for profit."[49]

The court found that the First Amendment issue concerning expressive works was a difficult one:

> The tension between the right of publicity and the First Amendment is highlighted by recalling the two distinct, commonly acknowledged purposes of the latter. First, "to preserve an uninhibited marketplace of ideas" and to repel efforts to limit the "uninhibited, robust and wide-open debate on public issues" (citation omitted). Second, to foster a "fundamental respect for individual development and self-realization."[50]

The Court recognized that the right of publicity could hinder both of these important purposes.[51] Because celebrities influence and affect society, the use of their likenesses may be important for uninhibited debate about public issues.[52] Therefore, "the right of publicity has the potential of censoring significant expression by suppressing alternative versions of celebrity images that are iconoclastic, irreverent, or otherwise attempt to redefine the celebrity's meaning."[53] The court went on to state, however, that "[t]he right of publicity derived from public prominence does not confer a shield to ward off caricature, parody and satire. Rather prominence invites creative comment."[54]

The court also noted that the threat to freedom of speech does not, by itself, abrogate the need to protect the right of publicity. Indeed, the court wrote that "having recognized the high degree of First Amendment protection for noncommercial speech about celebrities, we need not conclude that all expression that trenches on the right of publicity receives such protection."[55] The court analogized the right of publicity to copyright, in that it offers protection to a form of intellectual property deemed by society to have some social utility.[56]

> Often considerable money, time and energy are needed to develop one's prominence in a particular field. Years of labor may be required before one's skill, reputation, notoriety or virtues are sufficiently developed to permit an economic return through some medium of

> commercial promotion. For some, the investment may eventually create considerable commercial value in one's identity.[57]

Finding that few courts had attempted to reconcile the right of publicity and the First Amendment, the court elected to follow those decisions that concluded "that depictions of celebrities amounting to little more than the appropriation of the celebrity's economic value are not protected expression under the First Amendment."[58] The court looked to *Zacchini,*[59] where the U.S. Supreme Court addressed the right of publicity. In *Zacchini*, the defendant television station appropriated the plaintiff's entire human cannonball act. The Supreme Court rejected the defendant's argument that federal copyright or patent law would preempt the plaintiff's right of publicity claim under Ohio common law. The Court held that the First Amendment does not provide a safe harbor for every misappropriating act, and would not protect the defendant's acts, which constituted a free ride on plaintiff's goodwill.

Guglielmi,[60] the second case relied upon by the California Supreme Court, also applied a balancing test. In that case, the defendants produced a fictional film based on a deceased personality's life without his heirs' consent. The court distinguished between appropriation of celebrity likenesses that were protected under the First Amendment from those that were unprotected by balancing the competing interest: "[A]n action for infringement of the right of publicity can be maintained only if the proprietary interests at issue clearly outweigh the value of free expression in this context."[61]

In addressing the District Court's decision in *Jireh Publishing*, the court stated that, "[w]e disagree with the ETW Corp. court if its holding is taken to mean that any work of art, however much it trespasses on the right of publicity and however much it lacks additional creative elements, is categorically shielded from liability by the First Amendment."[62]

In formulating "a balancing test between the First Amendment and the right of publicity," the California Supreme Court rejected suggestions for a "wholesale importation" into publicity law of the fair use defense from copyright law.[63] But the court did find the first of the four statutory fair use factors, "the purpose and character use,"[64] to be pertinent and it selected one inquiry under the first factor, whether a work is "transformative," as "necessarily at the heart of any judicial attempt to square the right of publicity with the First Amendment."[65] The question was whether the artist had produced "literal, conventional depictions" or, rather, had added "significant creative elements."[66]

In deciding whether a work is sufficiently transformative, the court suggested that a trial court inquire further into whether "the marketability and economic value of the challenged work derive primarily from the fame of the celebrity depicted."[67]

> If this question is answered in the negative, then there would generally be no actionable right of publicity. When the value of the work comes principally from some source other than the fame of the celebrity—from the creativity, skill, and reputation of the artist—it may be presumed that sufficient transformative elements are present to warrant First Amendment protection. If the question is answered in the affirmative, however, it does not necessarily follow that the work is without First Amendment protection—it may still be a transformative work.[68]

Applying the transformative test, the court examined whether Saderup had introduced significant transformative elements to the image of The Three Stooges when he created the lithographs and T-shirts. The California Supreme Court concluded that those creative elements added by Saderup were not significant enough to overcome the right of publicity. The court found that the value of the works that Saderup had sold resided mainly in the fame of The Three Stooges, and thus were not entitled to First Amendment protection. If Saderup's depictions were protected by the First Amendment, then, the court stated, "we cannot perceive how the right of publicity would remain a viable right other than in cases of falsified celebrity endorsements."[69] The court stated that it was not imposing liability on "all reproductions of celebrity portraits" and said it might well protect "the [s]ilkscreens of Andy Warhol."[70] Acknowledging that its distinction "will sometimes be subtle," the court said, however, that it would be "no more so than other distinctions triers of fact are called on to make in First Amendment jurisprudence."[71] If Saderup wished to continue to depict The Three Stooges in his work, he needed to obtain the consent of Comedy III.[72]

Analysis

The Right of Publicity

The right of publicity finds its roots in the right of privacy. The privacy doctrine first was articulated over 100 years ago by Louis Brandeis and Samuel Warren.[73] In 1953, the right of publicity first emerged as an independent doctrine. In *Haelan Laboratories, Inc. v. Topps Chewing Gum, Inc.*,[74] the plaintiff acquired from the baseball players the right to use their photographs in connection with the sale of its chewing gum. The defendant obtained rights similar to those of the plaintiff from a publishing company. The Second Circuit held that the defendant violated the baseball player's right of privacy:

> We think that in addition to and independent of that right of privacy . . . a man has a right in the publicity value of his photograph, *i.e.*, the right to grant the exclusive privilege of publishing his picture, and that such a grant may validly be made "in gross," *i.e.*, without an accompanying grant of a business or of anything else. . . . This right might be called the "right of publicity." For it is common knowledge that many prominent persons (especially actors and ballplayers), far from having their feelings bruised through public exposure of their likenesses, would feel sorely deprived if they no longer received money for authorizing advertisements, popularizing their countenances, displayed in newspapers, magazines, buses, trains and subways.[75]

Since its recognition in *Topps*, the right of publicity has gained acceptance. Today, at least 25 states have adopted some form of statutory or common-law right of publicity protection. [76]

The right of publicity is based on sound policy motives: To afford an individual the right to control his or her identity as property and as a means for efficiently allocating resources. Thus, if one may control his or her identity by becoming famous, the law may encourage individuals to undertake "socially enriching" behavior to enter "the public eye."[77] A property right flows from an athlete's efforts to create marketable value in his other persona.[78] The right of publicity is "analogous" to a commercial entity's right to profit from the "goodwill" it has built up in its name."[79]

An athlete's right of publicity is not limited to his or her name, image or likeness.[80] Rather, the right of publicity protects the athlete from the unauthorized appropriation of his or her other identity, regardless of how the athlete's identity is conjured up in the public's eye. For instance, a right of publicity claim has been recognized for the misappropriation of a celebrity's catch phrase, voice, mannerisms and even ownership of a race car.[81] The athlete has the right to protect against an unauthorized exploitation of his or her identity, regardless of the means used. This right has become particularly important to professional athletes, who often authorize or license others to use their names and images on or in connection with products, including photographs, posters or other images of the athlete.[82]

The First Amendment Does Not Enjoy Absolute Protection

The First Amendment of the U.S. Constitution provides that "Congress shall make no law . . . abridging the freedom of speech."[83] By virtue of the Fourteenth Amendment, states are also prohibited from abridging speech.[84] These protections extend not only to pure speech,[85] but also to symbolic speech, including expressive conduct.[86] Similarly, the Supreme Court has made it plain that the "commercial" nature of speech does not by itself reduce First Amendment protection.[87]

While the First Amendment's guarantee of free speech has been hailed as a hallmark of a free society, it is not without limits.[88] The Supreme Court has endorsed the notion that all speech is not equal. In *Ashcroft v. The Free Speech Coalition*,[89] Justice Kennedy recently found that: "As a general principle, the First Amendment bars the government from dictating what we see or read or speak or hear. The freedom of speech has its limits; it does not embrace certain categories of speech, including defamation, incitement, obscenity, and pornography produced with real children."[90]

Thus, courts must face the inherent tension between protecting a person's right to control the commercial exploitation of his or her likeness and the societal right of free expression,[91] without any absolutist notion. Courts recognize that the right of publicity must be superceded by recognized First Amendment protections, such as the free dissemination of news reporting, social or political commentary, parody, satire, artistic creation and matters of public interest in a newspaper, newscast, book, magazine, motion picture and other like media.[92]

However, these protected rights are not raised merely by claiming "newsworthiness" or "parody." In a form of balancing, lower courts often have concluded, for example, that reproductions of original art are not, without more, transformed into protected speech.[93] In short, there is no blanket First Amendment exception to the right of publicity.

Proposed Right-of-Publicity Holder's Test

There is an inherent tension between expressive and intellectual property rights because those who would cloak themselves in the First Amendment often wish to use someone else's intellectual property to communicate their "messages."

The Supreme Court balanced the need to prevent theft of goodwill with the dual purposes of the First

Amendment. In *Zacchini*, the Court found the balance dependent on the facts of the case. It held that Ohio could enforce Zacchini's right of publicity without running afoul of the First Amendment.

The District Court in *Jireh Publishing* failed to apply any balancing test. Instead, it created a blanket First Amendment exception to the right of publicity whenever an artist or publisher claims freedom of expression. The District Court failed to note that every court to consider this issue has recognized that "the First Amendment is not a license to trammel on legally recognized rights in intellectual property," otherwise, one could legally infringe upon intellectual property on "free speech" grounds, thereby usurping the law of copyright, trademark and other intellectual property jurisprudence.[94] The First Amendment is not a shibboleth for encompassing every image of a newsworthy public figure.[95] Indeed, the Supreme Court has found that the mere fact that a defendant "claims an expressive, as opposed to a purely commercial, purpose does not give it a First Amendment right to 'appropriat[e] to itself the harvest of those who have sown.'"[96]

Copyright Threshold

The Supreme Court's decision in *Zacchini* forms a useful starting point for resolving the tension between the right of publicity and the First Amendment. The *Zacchini* court recognized that the goals of the right of publicity were similar to the universally accepted goals of the patent and copyright laws.[97] The Court concluded that:

> The Constitution no more prevents a State from requiring respondent to compensate petitioner for broadcasting his act on television than it would privilege respondent to film and broadcast a copyrighted work with liability to the copyright owner, [citations omitted], or to film and broadcast a prize fight, [citations omitted], or a baseball game, [citations omitted], where the promoters or the participants had other plans for publicizing the event.[98]

In applying the appropriate balancing test, a court must apply a series of neutral objective factors. We disagree, however, with the California Supreme Court that the transformative test "does not express a value judgment or preference for one type of depiction over another."[99] To the contrary, the transformative test has the potential for abuse. Under the standard of "contribut[ing] something more than a 'merely trivial' variation" and "[creating] something recognizably his own" in order to qualify for legal protection,[100] courts could, under the guise of protecting the right of publicity, invade the First Amendment rights of persons with whom they do not agree.

Additional elements from copyright law should be imported to clarify and strengthen the transformative test, thereby minimizing the impact of the transformative test's subjective element, specifically, the 1976 Copyright statute definition of a "work of visual art": "(1) a painting, drawing, print, or sculpture, existing in a single copy, **in a limited edition of 200 copies or fewer that are signed and consecutively numbered by the author** . . . "[101]

Additionally, while we agree with the California Supreme Court "that a wholesale importation of the fair use doctrine into right of publicity law would not be advisable,"[102] the court failed to apply the fourth fair use factor—the effect of the use upon the potential market for or value of the copyrighted work.[103] Instead, the *Comedy III* court dismissed its application by noting that an "independent inquiry into whether or not that work is cutting into the market for the celebrity's images—something that might be particularly difficult to ascertain in the right of publicity context—appears to be irrelevant."[104] We posit that this inquiry would be no more difficult to ascertain than "the likelihood of confusion" test employed for infringement claims. As the California Supreme Court noted, the distinction between significant transformative or creative contribution "will sometimes be subtle."[105] Accordingly, the fourth factor—the economic impact on the potential market—will adequately protect the right-of-publicity holder's interest in monopolizing the merchandising interest of an athlete's image, without unduly impinging upon the alleged infringer's right of free expression.

Based upon the foregoing, we propose the following test in right-of-publicity cases involving allegations of appropriating the commercial value of an athlete's identity where there is a First Amendment affirmative defense:

1) Is there a single item that uses the athlete's image? If the answer is yes, then there is an overwhelming presumption that the item is a "work of art" and therefore is entitled to First Amendment protection, and the inquiry stops here. If the answer is no, the inquiry continues.

2) If the item that uses the athlete's image appears in a limited edition of 200 copies or fewer, are the copies signed and consecutively numbered by the author? If so, there is a presumption in favor of the First Amendment. However, this presumption is not dispositive. The court must proceed to the next step and analyze the "transformative" factors. If the item using the celebrity's image appears in more than 200 copies,

there is a presumption that the work violates the celebrity's right of publicity, which can be rebutted by either the "transformative" test or the "economic effect" test.

3) If the item using the athlete's image appears in more than 200 copies, the alleged infringer may raise as an affirmative defense that the item contains significant transformative elements or that the value of the work does not derive primarily from the athlete's fame. The inquiry for the court is whether the item containing the athlete's likeness has been so transformed, that it has transcended the likeness of the celebrity and has become the alleged infringer's own expression. However, if the value of the work comes primarily from the fame of the athlete depicted, the presumption is that there may not be First Amendment protection, and the court must proceed to the fourth step.

4) In cases where the court is wrestling with the distinction between significant transformative or creative contribution, the court must address the effect of the use upon the potential market for or value of the copyrighted work. "It requires courts to consider not only the extent of market harm caused by the particular actions of the alleged infringer, but also whether unrestricted and widespread conduct of the sort engaged in by the defendant . . . would result in a substantially adverse impact on the potential market for the original."[106] If an item whose widespread dissemination runs the risk of serving as a substitute or replacement for the licensed product, it will create a presumption against fair use, thereby stripping the item of First Amendment protection. If the alleged infringer wishes to continue to depict the athlete's image, he or she may do so only with the consent of the right-of-publicity holder.

Application of the Right-of-Publicity Holder's Test

Single Item

Applying the first prong of the test, Rick Rush's original drawing from which the reproductions at issue were made would clearly be entitled to First Amendment protection.[107] However, the reproductions must be analyzed under the second prong of the right-of-publicity holder's test.

Limited Number of Copies

Here, Rick Rush offered for sale a "limited edition" of 5,000 lithographs of the print at a retail price of $15 and another 250 seriographs at a retail price of $700 each.[108] Therefore, a presumption of a violation of the athlete's right of publicity exists, which can be rebutted by either the "transformative" test or the "economic effect" test.

Transformative/Economic Effect Test

Comparing Nike's "Masterpiece," featuring Tiger Woods holding the position at the end of his swing during a critical moment in the 1997 Masters, with Rush's "Masters of Augusta," one would be hard-pressed not to notice the similarity between the licensed product and that of Rush. As the District Court noted in *Estate of Elvis Presley v. Russen*, "entertainment that is merely a copy or imitation, even if skillfully and accurately carried out, **does not really have its own creative component and does not have significant value as pure entertainment.**"[109] As for the economic effect test, Jireh's customers testified that the value of the poster lay in its "recognizable depiction of Tiger Woods rather than its artistic quality."[110] As the California Supreme Court noted, "[w]hen the value of the work comes principally from some source other than the fame of the celebrity—from the creativity, skill, and reputation of the artist—it may be presumed that sufficient transformative elements are present to warrant First Amendment protection."[111] Such is the case before the Sixth Circuit.

Potential Market Effect

No evidence was adduced in this case as to the potential market effect of Rick Rush's work. One can posit, however, that in light of the above testimony of Jireh's customers, that there is a risk that "Masters of Augusta" will serve as a substitute or replacement for Nike's licensed product, "Masterpiece." Accordingly, there would be a presumption against Rick Rush's fair use, thereby stripping "Masters of Augusta" of First Amendment protection.

Conclusion

Affirmation of the District Court's decision that the First Amendment trumps the right of publicity in all cases not only is inconsistent with existing law, but also would have a detrimental impact upon the right of publicity in that celebrities and professional athletes would be precluded from exerting control over future uses of the publicity rights in which they have so heavily invested. If this opinion should stand, celebrities and professional athletes will not be able to exercise control over their personas, images and likenesses. As a result, the protections afforded to these individuals, including the right-of-publicity and those afforded under section 43 of the Lanham Act, will be swallowed.

Endnotes

1. J. Thomas McCarthy, *The Rights of Publicity and Privacy* (2d ed. 2000), section 8.32 at 8-48.
2. 99 F. Supp. 2d 829, 835-36 (N.D. Ohio 2000) ("*Jireh Publishing*").
3. Jireh Publishing, Inc. ("Jireh") offered for sale a "limited edition" of 5,000 lithographs of the print at a retail price of $15 and another 250 seriographs at a retail price of $700 each. Brief for *Amicus Curiae* Major League Baseball Players Association at 5, *ETW Corp. v. Jireh Publishing* (Sixth Circuit No. 00-3584).
4. Argued Sept. 14, 2001.
5. ETW, as the exclusive licensing agent for Tiger Woods, asserted six claims in its First Amended Complaint: Trademark infringement under the Lanham Act, 15 U.S.C. § 1114 ; dilution under the Lanham Act, 15 U.S.C. § 1125(c); unfair competition and false advertising in violation of the Lanham Act, 15 U.S.C. § 1125(a); unfair competition and deceptive trade practices in violation of the Ohio Revised Code; unfair competition and trademark infringement under Ohio common law and a violation of Tiger Woods' right of publicity under Ohio common law. 99 F. Supp. 2d at 830. This paper will only address the right-of-publicity issue arising under Ohio common law and its effect upon the ability of sports figures to control their publicity rights.
6. 25 Cal. 4th 387, 21 P.3d 797, 106 Cal. Rptr. 2d 126 (Cal. 2001), *cert. denied*, 2002 U.S. LEXIS 212 (Jan. 7, 2002) (No. 01-368) ("*Comedy III*").
7. 25 Cal. 4th at 407, 21 P.3d at 810, 106 Cal. Rptr. 2d 142. The 1976 Copyright Act provides, in pertinent part, as follows:

    > § 107. Limitations on exclusive rights: Fair use
    >
    > Notwithstanding the provisions of sections 106 and 106A, the fair use of copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified in that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship or research, it is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include -
    >
    > (1) the purpose and character of use, including whether such use is of a commercial nature or is for not-for-profit educational purposes;
    >
    > (2) the nature of the copyrighted work;
    >
    > (3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and
    >
    > (4) the effect of the use upon the potential market for or value of the copyrighted work.

    The fact that a work is unpublished shall not itself bar a finding of fair use if such finding is made upon consideration of all the above factors. 17 U.S.C. § 107.
8. 25 Cal. 4th at 405, 21 P.3d at 808, 106 Cal. Rptr. 2d at 140.
9. 99 F. Supp. 2d at 830.
10. *Id.* at 830-31.
11. Brief of Plaintiff-Appellant at 6, *ETW Corp. v. Jireh Publishing* (Sixth Circuit No. 00-3584).
12. *Id.*
13. *Id.* (emphasis added).
14. *Id.* at 7.
15. *Id.*
16. *Id.*
17. 99 F. Supp. 2d at 830.
18. *Id.* A version of Mr. Rush's print is available through Jireh's Web site, http://www.jirehpub.com/images/tiger.jpg (last visited Jan. 11, 2002).
19. *Id.*
20. *Id.*
21. Final Brief of Defendant-Appellee at 6-7, *ETW Corp. v. Jireh Publishing* (Sixth Circuit No. 00-3584).
22. Brief for Plaintiff-Appellant at 11, *ETW Corp. v. Jireh Publishing* (Sixth Circuit No. 00-3584).
23. *Id.* at 11-12. The District Court did not seize upon this fact in rendering its opinion. Nevertheless, it is important as to Mr. Rush's motivation.
24. *Id.* at 834.
25. 351 N.E.2d 454 (Ohio 1976), *rev'd on other grounds*, 433 U.S. 562 (1977). Ohio now has a statute protecting publicity rights, OH. REV. CODE ANN., ¶¶ 2741.01-.09 (Baldwin 2000). The statute states in pertinent part:

    > 2741.02 Use of Individual's Persona for Commercial Purposes
    >
    > (A) Except as otherwise provided in this section, a person shall not use any aspect of an individual's persona for a commercial purpose during the individual's lifetime or a period of sixty years after the date of the individual's death.
    >
    > 2741.01 Definitions
    >
    > (A) "Persona" means an individual's name, voice, signature, photograph, image, likeness, or distinctive appearance. If any of these aspects have commercial value.
    >
    > (B) "Commercial purpose" means the use of or reference to an aspect of an individual's persona in any of the following manners:
    >
    > (1) On or in connection with a place, product, merchandise, goods, services, or other commercial activities not expressly exempted under this chapter;
    >
    > (2) For advertising or soliciting the purchase of products, merchandise, goods, services, or other commercial activities not expressly exempted under this chapter.

    Jireh Publishing does not fall within the ambit of this statute since it did not become effective until the end of 1999, and it is not retroactive. However, its enactment is instructive in providing an understanding of the intent of the Ohio legislature with respect to the right of publicity.
26. 99 F. Supp. 2d at 834.
27. *Id.*
28. *Id.* at 834-35: *Factors Etc., Inc. v. Pro Arts, Inc.*, 579 F.2d 215 (2d Cir. 1978) (distinguishing defendant's artistic prints that sought to convey a message from a case involving posters that used a copyrighted photograph of Elvis wherein the defendants argued that the posters were newsworthy and protected by the First Amendment); *Dallas Cowboy Cheerleaders, Inc. v. Scoreboard Posters, Inc.*, 600 F.2d 1184 (5th Cir. 1979) (distinguishing claim from a copyright infringement case involving partially nude ex-Dallas Cheerleaders mimicking plaintiff's posters of Dallas Cheerleaders posed in their official outfits); *Parks v. LaFace*

Records, 76 F. Supp. 2d 775 (E.D. Mich. 1999) (holding that an action involving a use of Rosa Park's name in song which was found to be protected by the First Amendment offers no insight into distinguishing posters from artwork).

29. 99 F. Supp. 2d at 835.
30. *Id.* at 835-36.
31. 808 F. Supp. 1288 (N.D. Tex. 1992).
32. 99 F. Supp. 2d at 836.
33. *Id., quoting* 808 F. Supp. at 1294.
34. 99 F. Supp. 2d at 834.
35. *Id.*
36. 25 Cal. 4th 387, 400, 21 P.3d 797, 805, 106 Cal. Rptr. 2d 126, 136 (Cal. 2002), *cert. denied*., 2002 LEXIS 212 (Jan. 7, 2002) (No. 01-368).
37. 25 Cal. 4th at 393, 21 P.3d at 800, 106 Cal. Rptr. 2d at 131.
38. *Id.*
39. 25 Cal. 4th at 393-94, 21 P.3d at 800-801, 106 Cal. Rptr. 2d at 131.
40. *Id.*
41. 25 Cal. 4th at 393, 21 P.3d at 800, 106 Cal. Rptr. 2d at 130-131.
42. 25 Cal. 4th at 394, 21 P.3d at 801, 106 Cal. Rptr. 2d at 131.
43. *Id.*
44. *Id.*
45. *Id.*
46. *Id.*
47. *Id.*
48. *Id.*
49. 25 Cal. 4th at 396, 21 P.3d at 802, 106 Cal. Rptr. 2d at 133, *quoting Guglielmi v. Spelling-Goldberg Productions*, 25 Cal. 3d. 860, 868, 603 P.2d 454, 160 Cal. Rptr. 352, ___ (Cal. 1979) (*conc. opn.* of Bird, C.J.).
50. 25 Cal. 4th at 396-97, 21 P.3d at 803, 106 Cal. Rptr. 2d at 133.
51. 25 Cal. 4th at 397, 21 P.3d at 803, 106 Cal. Rptr. 2d at 134.
52. *Id.*
53. *Id.*
54. *Id.*
55. 25 Cal. 4th at 399, 21 P.3d at 804, 106 Cal. Rptr. 2d at 135.
56. *Id.*
57. *Id.*
58. 25 Cal. 4th at 400, 21 P.3d at 805, 106 Cal. Rptr. 2d at 136.
59. *Supra* note 25.
60. *Supra* note 49.
61. 25 Cal. 4th at 400, 21 P.3d at 805, 106 Cal. Rptr. 2d at 136.
62. 25 Cal. 4th at 407 n.11, 21 P.3d at 809, 106 Cal. Rptr. 2d at 141.
63. 25 Cal. 4th at 404, 21 P.3d at 807, 106 Cal. Rptr. 2d at 139; *see* 17 U.S.C. § 107.
64. 17 U.S.C, § 107(1).
65. 25 Cal. 4th at 404, 21 P.3d at 808, 106 Cal. Rptr. 2d at 139-40.
66. *Id.*
67. 25 Cal. 4th at 407, 21 P.3d at 810, 106 Cal. Rptr. 2d at 142.
68. *Id.*
69. 25 Cal. 4th at 408-9, 21 P.3d at 811, 106 Cal. Rptr. 2d at 143.
70. *Id.*
71. *Id.*
72. 25 Cal. 4th at 407, 21 P.3d at 810, 106 Cal. Rptr. 2d at 142.
73. S. Warren & L. Brandeis, *The Right to Privacy*, 4 Harv. L. Rev. 193 (1890).
74. 202 F.2d 866 (2d Cir.), *cert. denied*, 346 U.S. 816 (1953).
75. *Id.* at 868.
76. The 25 states are: California, Connecticut, Florida, Georgia, Hawaii, Illinois, Indiana, Kentucky, Massachusetts, Michigan, Minnesota, Missouri, Nevada, Nebraska, New Jersey, New York, Ohio, Oklahoma, Pennsylvania, Rhode Island, Tennessee, Texas, Utah, Virginia and Wisconsin.
77. *Palmer v. Schonhorn Enterprises, Inc.*, 232 A.2d 458, 462 (N.J. 1967).
78. *Id.*; *see also Cepeda v. Swift & Co.*, 415 F.2d 1205, 1206 (8th Cir. 1969); *Grant v. Esquire, Inc.*, 367 F. Supp. 876 (S.D.N.Y. 1973).
79. *Ali v. Playgirl*, 447 F. Supp. 723, 728-29 (S.D.N.Y. 1978).
80. *See Kareem Abdul-Jabbar v. General Motors Co.*, 85 F.3d 407, 414 (9th Cir. 1996) ("The key issue [in a right of publicity claim] is appropriation of the plaintiff's identity.").
81. *See, e.g., Carson v. Here's Johnny Portable Toilets, Inc.*, 698 F.2d 831 (6th Cir. 1983) (use of a celebrity's catchphrase sufficient to constitute appropriating celebrity's identity); *Waits v. Frito-Lay, Inc.*, 978 F.2d 1093 (9th Cir. 1992) (use of a sound-alike voice sufficient to support a claim of violating a celebrity's right of publicity); *White v. Samsung*, 971 F.2d 1395 (9th Cir. 1993) (use of a robot posed and dressed like a celebrity sufficient to support right of publicity claim); *Motschenbacher v. R.J. Reynolds Tobacco, Co.*, 498 F.2d 821 (9th Cir. 1974) (use of a famous car driver's well-known race car sufficient to constitute an appropriation of a celebrity's identity).
82. *See, e.g., White v. Samsung*, *supra* note 81, 971 F.2d at 1398; *Haelan*, *supra* note 74, 202 F.2d at 868 (trading cards); *Uhlaender v. Hendricksen*, 316 F. Supp. 1277, 1281-83 (D. Minn. 1970) (board games); *Hicks v. Casablanca Records*, 464 F. Supp. 426 (S.D.N.Y. 1978) (posters).
83. U.S. Const. amend. I.
84. *Stromberg v. California*, 283 U.S. 359 (1931).
85. *Cohen v. California*, 403 U.S. 15 (1971).
86. *Cohen v. California*, *supra* note 85, 403 U.S. at 25 (speech); *Smith v. California*, 361 U.S. 147 (1959) (print); *Kaplan v. California*, 413 U.S. 115, 119 (1973) (painting); *Barnes v. Glen Theater Inc.*, 501 U.S. 560, 565 (1991) (dance); *Luke Records v. Navarro*, 960 F.2d 134, 135 (11th Cir. 1996) (song); and *Contemporary Arts Center v. Ney*, 753 F. Supp. 743, 744 (S.D. Ohio 1990) (photography).
87. *Virginia State Board of Pharmacy v. Virginia Citizens Consumer Council, Inc.*, 425 U.S. 748, 762 (1976) ("we may assume that the advertiser's interest is a purely economic one. That hardly disqualifies him from protection under the First Amendment."); *Time, Inc. v. Hill*, 385 U.S. 374, 397 (1967) ("That books, newspapers, and magazines are published and sold for profit does not prevent them from being a form of expression whose liberty is safeguarded by the First Amendment.").
88. *See, e.g., Chaplinsky v. New Hampshire*, 315 U.S. 568, 571-72 (1942) (holding that there are permissible speech restrictions such as libel laws, espionage laws, obscenity laws and the fighting words doctrine); *Virginia State Bd. Of Pharmacy*, *supra* note 87, 425 U.S. 748 (holding that the government is empowered to regulate commercial speech); *Silverman v. CBS, Inc.*, 870 F.2d 40, 49 (2d Cir. 1989) ("Trademark protection is not lost simply because the allegedly infringing use is in connection with a work of artistic expression.").
89. ___ U.S. ___, 122 S.Ct. 1389, ___ L.Ed.2d ___ (2002).
90. *Id.* Publication page references were not available at the time of publication.

91. *See Titan Sports, Inc. v. Comic World Corp.*, 870 F.2d 85, 88 (2d Cir. 1989) (right to control the commercial exploitation of identity is not absolute and must be tempered by "the constitutional guarantee of free dissemination of ideas, images, and newsworthy matter in whatever form it takes").

92. *See, e.g., Stephano v. News Group Pubs., Inc.*, 64 N.Y.2d 174, 184, 485 N.Y.S.2d 220, 224 (1984) (right of publicity not violated when identity is used to convey newsworthy events or matters of public interest); *Hicks v. Casablanca Records*, *supra* note 82, 464 F. Supp. at 433 ("First Amendment protection usually accorded novels and movies outweighs whatever publicity rights plaintiffs may possess"); *New York Magazine v. Metropolitan Transp. Auth.*, 136 F.3d 123 (2d Cir. 1998) (upholding magazine's First Amendment right to use photograph of the Mayor of New York to sell magazine because the advertisement "undeniably includes elements of political commentary").

93. *See, e.g., Titan Sports*, *supra* note 91, 870 F.2d 85 (unauthorized reproductions of pictures of wrestlers inserted in comic book held to violate wrestlers' rights of publicity); *Martin Luther King, Jr. Center for Social Change, Inc. v. American Heritage Prods., Inc.*, 250 Ga. 135, 296 S.E.2d 697 (Ga. 1982) (organization holding publicity rights could prevent reproduction and distribution of sculpture of Martin Luther King, Jr.); *Memphis Devel. Found. v. Factors, Inc.*, 616 F.2d 956 (6th Cir.), *cert. denied*, 449 U.S. 953 (1980) (reproduction and distribution of statuettes of Elvis Presley enjoined by court in favor of licensee of Elvis Presley's publicity rights); *Brinkley v. Casablancas*, 80 A.D.2d 428, 438 N.Y.S.2d 1004 (App. Div. 1st Dep't 1981) (unauthorized reproduction of model's photograph for use in poster held to violate model's right of publicity); *Mendonsa v. Time, Inc.*, 678 F. Supp. 967 (D. R.I. 1988) (although original photograph of "kissing sailor" protected as newsworthy under the First Amendment, unauthorized reproduction and sale of copies of photograph presented a basis for denying defendant's motion to dismiss right of publicity claim); *Factors Etc., Inc. v. Pro Arts, Inc.*, 496 F. Supp. 1090 (S.D.N.Y. 1980) (unauthorized reproductions of photograph of Elvis Presley for use in a commemorative poster, held to violate Presley's right of publicity) (later abrogated on grounds that right of publicity under New York law was not descendible).

94. *Zacchini*, *supra* note 25, 433 U.S. at 577 n.13 (First Amendment did not insulate defendants from liability for violating Ohio's right-of-publicity law any more than it would allow for copyright infringement); *White v. Samsung*, *supra* Note 80, 971 F.2d at 1401 n.3 ("unless the First Amendment bars all right of publicity actions—and it does not . . . —then it does not bar this case"); McCarthy, *The Rights of Publicity and Privacy*, supra note 1, at ¶ 7.20 at 7-37 (if it applied broadly to void right of publicity claims, "[t]he First Amendment would be a vehicle for legalizing commercial theft").

95. *See Mendonsa*, *supra* note 93, 678 F. Supp. at 971-72; *Zacchini*, *supra* Note 25, 433 U.S. at 574-75 (holding that the news media is not completely immunized from the reach of an individual's right of publicity; "the First and Fourteenth Amendments do not immunize the media when they broadcast a performer's entire act without his consent"); *Factors Etc.*, *supra* note 93, 579 F.2d at 222 (holding that the reproduction of a picture of Elvis Presley following his death was not privileged under the First Amendment as celebrating a newsworthy event just because the words "In Memory" accompanied the photograph).

96. *San Francisco Arts & Athletics, Inc. v. United States Olympic Comm.*, 483 U.S. 522, 541 (1987) (quoting *International News Service v. Associated Press*, 248 U.S. 215, 239-240 (1918) (finding no privilege for the unauthorized use of the registered trademark "Olympics").

97. *Supra* note 25, 433 U.S. at 573.

98. *Id.* at 575.

99. 25 Cal. 4th at 409, 21 P.3d at 811, 106 Cal. Rptr. 2d at 144.

100. 25 Cal. 4th at 408, 21 P.3d at 810-11, 106 Cal. Rptr. 2d at 143.

101. 17 U.S.C. § 101 (emphasis added). By contrast, a 'work of visual art' does not include—

> (A) (i) any poster, map, globe, chart, technical drawing, diagram, model, applied art, motion picture or other audiovisual work, book magazine, newspaper, periodical, data base, electronic information service, electronic publication, or similar production;
>
> (ii) any merchandising item or advertising, promotional, descriptive, covering, or packaging material or container;
>
> (iii) any portion or part of any item described in clause (i) or (ii);
>
> (B) any work made for hire; or
>
> (C) any work not subject to copyright protection under this article. *Id.*

102. 25 Cal. 4th at 404, 21 P.3d at 807, 106 Cal. Rptr. 2d at 139. The California Supreme Court held that the second and third factors of the fair use defense—"the nature of the copyrighted work" and "the amount and substantiality of the portion used," *citing* 17 U.S.C. § 107 (2), (3)—seemed particularly designed to be applied to cases involving partial copying. The court went on to state, "it is difficult to understand why these factors would be especially useful for determining whether the depiction of a celebrity likeness is protected by the First Amendment." 25 Cal. 4th at 404, 21 P.3d at 807-08, 106 Cal. Rptr. 2d at 139.

103. 17 U.S.C. § 107 (4).

104. 25 Cal. 4th at 405 n.10, 21 P.3d at 808, 106 Cal. Rptr. 2d at 140.

105. 25 Cal. 4th at 409, 21 P.3d at 811, 106 Cal. Rptr. 2d at 143.

106. *Campbell v. Acuff-Rose Music, Inc.* 510 U.S. 569, 590, 114 S.Ct. 1164, 1177, 127 L.Ed.2d 500, ___ (1994).

107. It is interesting to note that ETW sued Jireh, the publishing house, as opposed to Mr. Rush. We can only assume that this was in recognition of Mr. Rush's First Amendment rights.

108. Brief of *Amicus Curiae* Major League Baseball Players Association at 5, *ETW Corp. v. Jireh Publishing* (Sixth Circuit No. 00-3584).

109. 513 F. Supp. 1339, 1359 (D.N.J. 1981) (emphasis added).

110. Brief of *Amicus Curiae* Elvis Presley Enterprises, Inc.; The Autrey Survivors' Trust; Sheffield Enterprises, Inc.; Wayne Enterprises, LLP; Experience Hendrix, Inc.; Arnold Palmer Enterprises, Inc.; Jonesheirs, Inc., and Global Icons, Inc. in Support of Appellant at 34, *ETW Corp. v. Jireh Publishing* (Sixth Circuit No. 00-3584).

111. 25 Cal. 4th at 407, 21 P.3d at 810, 106 Cal. Rptr. 2d at 142.

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Phat Fashions, LLC v. Phat Game Athletic Apparel, Inc. and Phat Game, Inc.[1]

By Leah Weitzen

In a trademark action brought in the Southern District of New York and transferred to the Eastern District of California, Phat Fashions, a prominent New York-based urban apparel company represented by Pryor Cashman Sherman & Flynn LLP, sued a California apparel company, alleging that the defendants' PHAT GAME brand of clothing, sold primarily through its Web site at PHATGAME.COM, infringed, diluted and otherwise unfairly competed with the plaintiff's family of PHAT trademarks, including PHAT®, PHAT FARM®, BABY PHAT® and PHAT THREADS®.

> *". . . Judge Karlton concluded that Phat Fashions' trademarks were not only strong, but famous, and therefore entitled to protection against use of confusingly similar marks on even non-competing products."*

Before reaching the merits of Phat Fashions' claims, Judge Karlton conducted a choice of analysis in which he determined that the Ninth Circuit's Sleekcraft analysis and the Second Circuit's Polaroid analysis for infringement and unfair competition under sections 1114(1) and 1125(a) of the Lanham Act are "reasonably identical," as are the Ninth and Second Circuits' dilution analyses under section 1125(c) of the Lanham Act. Moving to Phat Fashions' state law claims, Judge Karlton found that New York and California have enacted virtually identical dilution statutes, and that once a plaintiff establishes liability for unfair competition under the Lanham Act, claims for unfair competition under both New York and California law are also stated. Concluding that there is no conflict between the Ninth and Second Circuits' interpretation of the Lanham Act, nor between the relevant California and New York state laws, Judge Karlton applied the law of the forum. Rejecting the defendants' argument that Phat Fashions' trademarks are weak because the term "PHAT" is a commonly used slang term, Judge Kartlon held that Phat Fashions' PHAT® trademark is an arbitrary mark, and therefore entitled to the "widest ambit of protection from infringing uses." Moreover, after reviewing the substantial evidence of secondary meaning that Phat Fashions' marks have acquired, including the amount of publicity the marks have received and advertising and sales revenue, Judge Karlton concluded that Phat Fashions' trademarks were not only strong, but famous, and therefore entitled to protection against use of confusingly similar marks on even non-competing products.

Lastly, Judge Karlton found that defendants adopted their PHAT GAME trademark in bad faith, since both market research and a trademark search had been conducted, and the defendants were otherwise familiar with Phat Fashions' products and pricing. In granting Phat Fashions' motion for summary judgment in its entirety, Judge Karlton held that the defendants' PHAT GAME apparel products infringed and blurred Phat Fashions' famous PHAT trademarks, entitling Phat Fashions to permanent injunctive relief. Judge Karlton also ordered the defendants to file a notice of express abandonment of their application to register PHAT GAME with the United States Patent and Trademark Office, and that the defendants transfer ownership of the registration for PHATGAME.COM to Phat Fashions.

Endnote

1. No. CIV. S-01-1771 (E.D. Cal. 2002).

Pryor Cashman partner Brad D. Rose and litigation associates Suzan Arden, David Levine and Leah Weitzen represented Phat Fashions in the litigation.

Will MOCA Leave a Bitter Taste?

By Richard Siegmeister

This article looks at how the Music Online Competition Act of 2001 (MOCA) would change the current Copyright Act, with a focus on how the proposed legislation would limit the ability of copyright owners to negotiate prices for the use of music recordings on the Internet.

"We suffer as a society and a culture when we don't pay the true value of goods and services delivered. We create a lack of production. Less good music is recorded if we remove the incentive to create it."[1]

While many fans of Britney Spears and Christina Aguilera may not even know what a vinyl record is, their parents have seen the format of recorded music change from vinyl to cassette tape to 8-track and then to CD, and now to MP3.[2] Music has continued to evolve on the Internet, but not without a few growing pains. Much to the dismay of Dr. Dre and Metallica, at one point, 60 million users downloaded music for free from Napster.[3] Digital downloads continue to attract headlines, but streaming audio and the broadcasting of music over the Internet also attract fans and controversy.[4]

In the last six years, Congress has made several changes to the Copyright Act to address the use of music on the Internet.[5] These changes have created new rights for the owners of music recordings,[6] but have not pleased everyone.[7] A bill entitled the Music Online Competition Act of 2001 (MOCA) seeks to change the Copyright Act yet again, and could diminish the newly won rights of owners of music recordings.[8]

If passed, MOCA would change the current Copyright Act by limiting the ability of copyright owners to negotiate prices for the use of music recordings on the Internet. In order to fully understand the proposed changes, it is important to first understand the current state of music on the Internet. This article will look at the different rights granted under the Copyright Act for a musical composition and a musical recording. It will also explain the recent changes to the Copyright Act and the types of music licensing. Finally, the proposed changes by MOCA and the problems it would create will be discussed.

Two Different Copyrights and Two Different Rights

Before focusing on the Internet, it is necessary to review several important concepts. The first is the difference between a song and a sound recording of a song.[9]

Each recording of a song normally involves two copyrights. The first copyright in the musical composition of a song is separate and apart from the second copyright in the particular sound recording of that song.[10] For example, Warner/Chappell Music, Inc., a major music publishing company, purchased the copyright to "I've Got You Under My Skin" from the creator, songwriter Cole Porter. Over the years, there have been thousands of recordings of this song, and a separate copyright exists for each recording. The 1956 recording by Frank Sinatra is owned by Capitol Records. In order to use the 1956 recording by Frank Sinatra, one would have to obtain a license from both Warner/Chappell, the music publisher, and from Capitol Records, the record company.[11]

"While many fans of Britney Spears and Christina Aguilera may not even know what a vinyl record is, their parents have seen the format of recorded music change from vinyl to cassette tape to 8-track and then to CD, and now to MP3."

The second vital concept is the difference between the right to reproduce a work and the right to publicly perform a work. Section 106 of the Copyright Act states that "[T]he owner of copyright under this title has the exclusive rights to . . . reproduce the copyrighted works in copies or phonorecords."[12] This right applies to both the musical composition and the sound recording,[13] and is in contrast to the right to publicly perform a work.

Both copyrights are not treated the same for a public performance, however. The Copyright Act states that "[T]he owner of copyright . . . has the exclusive rights to . . . in the case of . . . musical . . . works . . . to display the copyrighted work publicly; and in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission."[14] This means that if one was to publicly perform the Frank Sinatra recording of "I've Got You Under My Skin" on the radio, because it is an analog use, a license would be required for that use from Warner/Chappell, but not from Capitol Records.[15] According to John Delaney, a partner with the copyright law firm Morrison and Foerster:

> Thanks to lobbying by the radio stations back in the early '70s the only royalties they have to pay go to the American Society of Composers, Authors and Publishers (ASCAP) and Broadcast Musicians Incorporated (BMI), the organizations that collect and distribute royalties for songwriters and music publishers. . . . But record labels aren't paid when their songs are played on the radio, and singers are also paid nothing by radio stations for their performance in a sound recording of a song.[16]

Until Congress enacted the Digital Performance Rights in Sound Recordings Act of 1995 (DPRA), owners of sound recordings did not have any public performance rights at all.[17] In 1989 Frank Sinatra helped form the Performer's Rights Society Of America to focus attention on the issue, but all efforts were unsuccessful until 1995.[18]

Recent Legislation

When Congress decided to finally grant public performance rights to the owners of sound recordings, it could have done so simply by adding the words "sound recordings" to the list of works for which owners have the exclusive right of public performance.[19] Instead, it gave birth to an incredibly complex array of regulations that the industry is still trying to come to terms with.[20]

The DPRA granted sound recordings a very limited right of public performance. The copyright owners were only granted the right to "perform the copyrighted work publicly by means of a digital audio transmission."[21] To fully comprehend this right one must understand several definitions. The term "digital transmission" is defined as "a transmission in whole or in part in a digital or other non-analog format."[22] A "digital audio transmission" is defined as "a digital transmission as defined in section 101, that embodies the transmission of a sound recording. This term does not include the transmission of any audiovisual work."[23] The word transmission is not defined in the Copyright Act but the word transmit is defined as "To 'transmit' a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent."[24] The above definitions would appear to limit the right only to audio recordings in a digital format that do not include any audio-visual materials which are received beyond the places where they are sent. In theory this could include other uses beyond the Internet, but the statute contains even more exemptions and compulsory licenses that further limit the applicability of the rights that are granted.[25]

The Copyright Act divides digital audio transmissions into two groups, interactive and non-interactive.[26] The main difference between the two categories for a licensee of music is that only non-interactive transmissions are eligible for a compulsory statutory license. An interactive service is defined as "one that enables a member of the public to receive a transmission of a program specially created for the recipient, or on request, a transmission of a particular sound recording, whether or not as part of a program, which is selected by or on behalf of the recipient."[27] In other words, a service is interactive when the consumer is able to choose what songs to listen to. This type of service, which allows a subscriber to select individual recordings for listening on demand, has been referred to as a celestial jukebox.[28] Interactive services have the greatest potential for decreasing record companies' sales.[29] The record companies receive revenue from the reproduction and distribution of the sound recordings in the form of CDs.[30] Because interactive services might enable listeners to substitute on-demand transmissions for CD purchases, the service must negotiate directly with the copyright owner of the sound recording.[31] The copyright owner is free to grant or not grant a license, and may charge any amount for it.[32]

The Copyright Act does, however, provide a compulsory statutory license for non-interactive services. The record companies can be compelled to license the recordings at fees set by a governmental body.[33] The Copyright Act establishes several conditions that a service must comply with in order to qualify as non-interactive. The purpose of these conditions is to make sure that the transmissions have little chance of replacing the sales of CDs.[34] In order to qualify as non-interactive the service must meet the following conditions:

A. The transmission must not be part of an interactive service.[35]

B. The services must not automatically and intentionally cause any device receiving the transmission to switch from one program channel to another.[36]

C. The service must not publish an advance program schedule or prior announcement of the titles of specific sound recordings to be transmitted.[37]

D. The transmission must not be part of an archived program.[38]

E. The service must take no affirmative steps to cause or induce the making of a phonorecord by the transmission recipient, and if possible with the technology used by the service, limit the ability by the transmission recipient to make phonorecords of the transmission directly in a digital format.[39]

F. The service must identify in text the sound recording during, but not before, the time it is performed, including the title of the sound recording, the title of the phonorecord embodying such sound recording, and the featured recording artist, in a manner to permit it to be displayed to the transmission recipient.[40]

G. The transmission must not exceed the sound recording performance compliment.[41]

The sound recording performance compliment requires that within any three-hour period on a particular channel, the service must not use three different selections from any one phonorecord, or four different sound recordings by the same artist or four different sound recordings from any set or compilation of phonorecords.[42] If a service qualifies as non-interactive, its administrator still does not know how much to pay for the use of the recordings.[43] The U.S. Copyright Office, as instructed under the DPRA, has been hearing testimony since 1995 in order to establish the amount for the compulsory statutory rate.[44] Until that rate is set, the non-interactive services must keep track of what they play, and upon creation by the Copyright Office, pay the rate retroactively to the licensors.[45]

If a service is not interactive, but is unwilling to meet the above conditions, then it does not qualify for the statutory license and its administrator must negotiate directly with the copyright owner of the sound recordings. This is a similar situation to licensing for an interactive service, except that this type of use is subject to a statutory most-favored-nations clause.[46] In order to understand the most-favored-nations clause one must first understand the definition of an affiliated entity.[47] The Copyright Act defines the term as: "[A]n entity engaging in digital audio transmissions covered by section 106(6), other than an interactive service, in which the licensor has any direct or indirect partnership or any ownership interest amounting to 5 percent or more of the outstanding voting or non-voting stock."[48] With this in mind one can appreciate the most-favored-nations clause, which states:

> If the copyright owner of a sound recording licenses an affiliated entity the right to publicly perform a sound recording by means of a digital audio transmission . . . the copyright owner shall make the licensed sound recording available . . . on no less favorable terms and conditions to all bona fide entities that offer similar services.[49]

The statute has certain exceptions which allow the copyright owner to set different terms and conditions if there are material differences in the scope of the license, the particular sound recordings, the frequency of use, the number of subscribers or the duration.[50] The most-favored-nations clause was created to promote competitive licensing,[51] but the legislative history does not explain why it has such a narrow application.[52] Based on the reasons why interactive services were excluded from the statutory license, one could infer that because the clause only applies to services that are not interactive, the legislature did not see the need to grant the copyright owners the same protection.[53] Even though these types of services do not qualify for the statutory license, they still do not threaten CD sales to the degree that an interactive service does. The copyright owner is free to not license the recording to an affiliated entity, but if it does, it may set any rate it so wishes. Once a recording is made available and a rate is set for an affiliate, however, the copyright owner must license the recording to similar non-affiliated entities at the same rate.[54]

MOCA

"This bill has something for everyone. And it also has provisions that will give various members of the music industry heartburn."[55]

Representatives Rick Boucher (D) of Virginia and Chris Cannon (R) of Utah introduced MOCA on August 2, 2001.[56] Representative Boucher has been described as "the Internet's biggest friend and defender in Congress."[57] He earned this title by introducing a bill last year, entitled the Music Owners' Listening Rights Act of 2000 (MOLRA), that would have legalized such services as MP3.com that store CDs online and stream songs to customers who prove that they own copies of the CD.[58] At the time MP3.com was facing multiple copyright infringement lawsuits brought by both record labels and music publishers.[59] Representative Boucher introduced MOLRA at the request of MP3.com's CEO, Michael Robertson.[60] The bill was met by opposition from the recording industry and performing arts groups and has not since been reintroduced.[61] Ultimately, MP3.com paid out over $150 million in damages.[62] Like MOLRA, MOCA would favor the rights of online music services at the expense of copyright owners.

MOCA proposes six changes to the Copyright Act and a joint evaluation by the Copyright Office and the Department of Justice.[63] The evaluation would look at the conditions that a service must meet in order to qualify for the statutory license under which the record companies can be compelled to license the recordings at fees set by a governmental body.[64] The evaluation would focus on several issues: How compliance with the conditions might have an economic cost to service providers and how they might affect the nature and marketability of the programming, whether any non-interactive service would be unable to comply with the conditions, whether any changes in the conditions would enable additional non-interactive services to qualify and the likely impact upon copyright owners of sound recordings of any such changes to the conditions.[65] Even though MOCA would not change the conditions, "While the inquiry into the effects of these requirements mandated by MOCA is welcome, it seems to do very little except lay minimal groundwork for their eventual alteration."[66]

Representative Boucher appears to have predetermined what the evaluation will show. While introducing MOCA, he stated that:

> Broadcast radio is not subject to these programming restrictions. Certain digital music services contend that some of these programming restrictions impose undue burdens upon their service, reduce their ability to compete with broadcast radio and unfairly preclude their ability to take advantage of the statutory license to deliver the type of services that consumers expect from a radio offering.[67]

Once again it appears that Representative Boucher has decided that the ability of digital music services to obtain the music they want at the price they want is more important than the rights of copyright owners. The reason for the conditions is to make sure that these services do not harm the sales of CDs.[68] A statutory license usurps the copyright owner's right to exclude others from using its intellectual property and predetermines the rate that must be charged.[69] If the requirements are loosened, then these services will become closer to interactive services and the copyright owners will be unable to maximize the value and fully protect their property.

The major change that MOCA proposes is to expand the most-favored-nation clause to all uses by an affiliated entity.[70] The legislation would change the definition of an affiliated entity to mean:

> An entity, other than an entity that wholly owns or is wholly owned by the licensor, engaging in digital audio transmission . . . or digital phonorecord deliveries in which the licensor has any direct or indirect partnership or any ownership interest amounting to 5 percent or more of the outstanding or non-voting stock.[71]

MOCA would also change the most-favored-nations clause to read as follows:

> If the copyright owner of a sound recording licenses an affiliated entity the right to reproduce the copyrighted work, to distribute the copyrighted work to the public by means of a digital phonorecord delivery or to perform the copyright work publicly, the copyright owner shall make the licensed sound recording available on no less favorable terms and conditions to all bona fide entities that offer similar services.[72]

The proposed changes would in effect punish copyright owners for owning as little as 5 percent of an Internet music service. Their punishment would be to lose control of what price they can charge and to whom they must license their intellectual property.[73] If enacted, this provision could have severe repercussions because it strikes at the record company's main business, the selling of sound recordings.[74] As expanded, the most-favored-nations clause would affect all uses of sound recordings on the Internet, including interactive services and the downloading of music.

Without the direction of, or limitations placed by, government restrictions, it is not unusual for a copyright owner to charge different prices for licenses to different users.[75] In *ProCD Inc. v. Zeidenberg,* a case that involved the owner of a database, the court stated, "ProCD decided to engage in price discrimination selling its database to the general public . . . at a low price . . . while selling information to the trade for a higher price."[76] The court did not find this to be unreasonable, and stated that, "If ProCD had to recover all of its costs and make a profit by charging a single price . . . it would have to raise the price substantially."[77] Since price discrimination can be a good thing for consumers, it seems odd that MOCA would try to prevent it. According to Representative Boucher, MOCA is trying to protect independent services.[78] He explains that:

> Recording companies have recently entered into the online music distribution business by establishing joint ventures with other companies (e.g., MusicNet and Pressplay) and by acquiring well-known, formerly independent Internet services (such as CDNow, Emusic and MP3.com). It is anticipated that the distribution services owned by record companies will cross license each other, so that each site will be authorized to distribute over the Internet approximately 80 percent of all recorded music. If the major

> record companies do not also license independent unaffiliated distribution services, this could create a competitive imbalance that could threaten the establishment and survival of independent online music services.[79]

If this is his true goal, then there are other less drastic steps that may be taken. Currently, the U.S. Justice Department is investigating the online music business.[80] Until this investigation is complete, however, it would be premature to enact legislation for behavior that at this time is merely anticipatory.

In addition to being too quick to act, there are other problems with MOCA's expansion of the most-favored-nations clause. For one thing, it is too inclusive. MOCA would affect both the large record companies and the artists who try to independently distribute their music. Representative Cannon, as part of his introduction of MOCA, stated: "I thought artists would be putting their creations online and getting paid more directly for their work. Regrettably, none of that has happened."[81] From this statement, one may infer that the Congressman is not a fan of Prince and the New Power Generation.[82] Prince has created a music club on the Internet where, for a fee, his fans each month can download songs and an audio show.[83] If this Web site is not wholly owned by Prince, then under MOCA he would be forced to offer his recordings on no less favorable terms to all entities that offer similar services.[84] This would greatly reduce the value of the service to the consumer, as the main feature of the club is the exclusivity of the recordings.

MOCA retains the current exceptions to the most-favored-nations clause, which allow for different terms and conditions if there are material differences in the scope of the license, the particular sound recordings, the frequency of use, the number of subscribers or the duration of the license.[85] Under MOCA, it would be difficult for Prince to determine what services the most favored nations clause applied to.

The legislation leaves many questions open to interpretation. What would a similar service be? Using the example above, would a service need to be devoted to Prince, or would any music service that charged a fee be similar? The music service would also have problems in determining what a material difference would be in the number of subscribers. Certainly one or two would not be material, but perhaps 300 subscribers could be. If MOCA is enacted these questions could spawn litigation that would result in their ultimate adjudication.

The policy consideration behind the expansion of the most-favored-nations clause is that the government should insert itself in the debate to increase competition in the Internet music industry, but the measure has several loopholes and is unlikely to achieve its goal.[86] The first loophole is that it does not apply to entities that are solely owned by the licensor.[87] In the name of competition, MOCA could end up creating the Balkanization of the Internet music industry. Each record company could create its own wholly owned music service. This would force the consumer to go to multiple Web sites to get the music he or she wanted, which would do nothing to help the independent music services.

Another way around the expansion of the most-favored-nations clause would be for the record companies to charge both their own affiliated services and non-affiliated services the same high license fee.[88] This would not be a burden to the affiliates, because the fees would be going to a partner of the service who could then reinvest that money back into the company. This may be more damaging to independent music services than the current state of affairs in the industry.

As part of his introduction of MOCA, Representative Cannon stated:

> Let me take a moment to respond to criticism we have already heard from the Recording Industry Association [of America (RIAA)] . . . RIAA has said that MOCA contains a compulsory license . . . That is just not true. A number of people did come to us seeking a compulsory license but, Rick and I felt that would be premature—especially now that MusicNet and Pressplay have announced that they will license downloads to some of their competitors. Should that change, however, or if other signs of anticompetitive behavior emerge, I think the Judiciary Committee would almost certainly have to consider a compulsory license to address not only copyright concerns but antitrust concerns as well.[89]

MOCA may only be a warning of more stringent legislation to come. Representatives Cannon and Boucher place little trust in the marketplace, and warn that they will step in if their constituents do not get what they want. The RIAA opposes MOCA, stating that "The bill substitutes government regulation for the marketplace."[90] One pundit has observed that "the attendant regulatory price-setting—is rooted in the idea of 'market failure,' the perception that it is too difficult for scattered owners and licensees to agree on terms or gauge usage."[91] This is not the current state of the industry. For example, some record companies may be waiting for the public to have greater access to broadband Internet services.[92] If this is the case, then the government should not step in, but should allow the market to evolve naturally.[93] Not everyone in the industry is taking a wait-and-see attitude, but lobbying for a statutory license may frustrate voluntary contractual business arrangements.[94] The government should not compel licensing because of a few special interests. If it does, these same parties will then clamor for forced licenses for books and movies.[95]

The copyright owner of the music recording is the one who has taken the time and money to invest in developing the value of the property. It is only because the public wants to hear the recordings that these new independent Internet music services would like to have access to them. The government should not force a better deal for such services than they could negotiate privately.[96] As one commentator remarked, "[I]t's hard to make a case for a right to be entertained, even in today's advanced welfare state."[97] Ultimately, everyone, including the consumer and the Internet music services, would be better served by licenses that reflect the current market incentives rather than an adversarial compulsory license designed by a Washington committee.

Endnotes

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3. Penelope Patsuris, *Singers to Cash in on Webcasts,* Forbes.com *at* http://www.forbes.com/2001/0813music.html (Aug. 13, 2001), and *Metallica v. Napster*, Inc. 2001 WL 777005, (N.D. Cal., Mar. 5, 2001).
4. Patsuris ("Already 49 million Internet users say they listen to streaming audio at least once a week, according to Forrester Research analyst Eric Scheirer").
5. David Nimmer, *Ignoring the Public, Part I: On the Absurd Complexity of the Digital Audio Transmission Right,* 7 UCLA Ent. L. Rev., 189 (2000).
6. *Id.*
7. Lawrence Lessig, *Record Execs. Are Crying for the Rights of Artists. But the Real Issue is Innovation, not Pay,* The Industry Standard *at* http://www.thestandard.com/article/0,1902,26946,00.html (June 11, 2001).
8. Music Online Competition Act of 2001, H.R. 2724, 107th Cong. (2001).
9. Robert Kohn, Kohn On Music Licensing 334 (2d ed. 1999).
10. *Id.*
11. *Id.*
12. 17 U.S.C. § 106 (1995) *see also* 17 U.S.C. § 101 (1995) (Phonorecords are defined as "material objects in which sounds, other than those accompanying a motion picture or other audiovisual work, are fixed by any method now known or later developed, and from which the sounds can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. The term "phonorecords" includes the material object in which the sounds are first fixed." This definition includes all recording formats including sound files like MP3 on a computer hard drive).
13. Kohn, *supra* note 9, at 335.
14. 17 U.S.C. § 106 (1995).
15. Kohn, *supra* note 9, at 335.
16. Patsuris *supra* note 3.
17. Kohn, *supra* note 9, at 335.
18. Siegel, *supra* note 2 at 5.
19. Nimmer, *supra* note 5 at 189.
20. *Id.* ("When Congress decided to plug the historical anomaly under which sound recordings lacked any performance right, it could have acted very simply. Instead, it gave birth to a Frankenstein").
21. 17 U.S.C. § 106 (1995).
22. 17 U.S.C. § 101 (1995).
23. 17 U.S.C. § 114(j)(3)(1995).
24. 17 U.S.C. § 101 (1995).
25. Nimmer, *supra* note 5 at 196. ("Potentially captured within the transmission right are such forms of diffusion as over-the-air broadcast, telecast over cable or satellite, and modem or other telephone communication").
26. Les Watkins, *The Digital Performance Right In Sound Recordings Act of 1995,* Entertainment and Sports Lawyer, Vol. 13, No. 4, 19 (1996).
27. 17 U.S.C. § 114(j)(7)(1995).
28. Watkins, *supra* note 26 at 20.
29. *Id.*
30. *Id.*
31. *Id*
32. Kohn, *supra* note 9, at 355.
33. *Id.*
34. Kohn, *supra* note 9, at 356.
35. 17 U.S.C. § 114(d)(2)(A)(i)(1995); *see also* Kohn, *supra* note 9, at 355.
36. 17 U.S.C. § 114(d)(2)(A)(ii)(1995); *see also* Kohn, *supra* note 9, at 355.
37. 17 U.S.C. § 114(d)(2)(B)(ii)(1995); *see also* Kohn, *supra* note 9, at 355.
38. 17 U.S.C. § 114(d)(2)(C)(iii)(1995) and 17 U.S.C. § 114(j)(2)(1995) (an archived program is defined as "a predetermined program that is available repeatedly on the demand of the transmission recipient and that is performed in the same order from the beginning." The statute does not allow an archived program of less than five hours but it does allow an archived program of greater than five hours if it is available for less than two weeks).
39. 17 U.S.C. § 114(d)(2)(C)(iii)(IV)(vi)(1995).
40. 17 U.S.C. § 114(d)(2)(C)(iii)(IV)(ix)(1995).
41. 17 U.S.C. § 114(d)(2)(B)(i)(1995); *see also* Kohn, *supra* note 9, at 355.
42. 17 U.S.C. § 114(j)(13)(1995); *see also* Kohn, *supra* note 9, at 357.
43. Patsuris *supra* note 3.
44. *Id.*
45. *Id.*

46. Nimmer, *supra* note 5 at 252.

47. *Id.*

48. 17 U.S.C. § 114(j)(1)(1995).

49. 17 U.S.C. § 114(h)(1)(1995).

50. *Id.*, *see also* Nimmer, *supra* note 5 at 252.

51. Nimmer, *supra* note 5 at 252.

52. *Id.* at 254.

53. Kohn, *supra* note 9, at 356.

54. Nimmer, *supra* note 5 at 252.

55. Chris Cannon, *Introductory Statement of Representative Chris Cannon, H.R. 2724, the "Music Online Competition Act" (MOCA), at* http://www.house.gov/cannon/press2001/aug03.htm (Aug. 3, 2001).

56. H.R. 2724, 107th Cong. (2001).

57. *Legislation Would Bring Sanity to Copyright Law,* The Wizard, *at* http://www.wizardfkap.com/archive/a20010803.htm (Aug. 3, 2001).

58. *Id.*, *see also* The Music Owners' Listening Rights Act of 2000 at http://www.house.gov/boucher/docs/molra-leg.htm (Sept. 25, 2000).

59. Brad King, *Music May Yet Stream From Web,* Wired News, *at* http://www.wired.com/news/mp3/0,1285,45813,00.html (Aug. 4, 2001).

60. *Id.*

61. Alexander Davie & Christine Soares, *The Music Online Competition Act of 2001: Moderate Change or Radical Reform?,* 2001 Duke L. & Tech. Rev. 0031 *at* http://www.law.duke.edu/journals/dltr/articles/2001dltr0031.html (Aug. 31, 2001).

62. King, *supra* note 59.

63. H.R. 2724, 107th Cong. (2001), *see also* Rick Boucher, *Statement of Congressman Rick Boucher. Introduction of Music Online Competition Act, at* http://www.house.gov/boucher/docs/moca-statemnt.htm (Aug. 3, 2001). (Besides the change discussed here, MOCA would also expand the ephemeral recording exemption and expand the in-store sampling exemption, clarify the status of incidental and archival copying, facilitate the administration of the section 115 mechanical license and require direct payments to artists for the statutory performance license).

64. H.R. 2724, 107th Cong. § 7 (2001); *see also* Kohn, *supra* note 9, at 355.

65. H.R. 2724, 107th Cong. § 7 (2001).

66. Davie, *supra* note 61.

67. Boucher, *supra* note 63.

68. Kohn, *supra* note 9, at 356.

69. Laurie Messerly, *"Taking" Away Music Copyrights: Does Compulsory Licensing of Music on the Internet Violate the Fifth Amendment's Taking Clause?,* Center for Individual Freedom *at* http://www.cfif.org/5_8_2001/Free_line/current/free_line_copyright.htm (last visited Dec. 2, 2001).

70. Davie, *supra* note 61.

71. H.R. 2724, 107th Cong. § 4 (b) (2001).

72. *Id.*; *see also supra* text accompanying note 12.

73. Messerly, *supra* note 69.

74. Watkins, *supra* note 26 at 20.

75. *ProCD Incorporated v. Zeidenberg*, 86 F.3d 1447 (7th Cir. 1996).

76. *Id*. at 1449.

77. *Id.*

78. *Summary of Music Online Competition Act, at* http://www.house.gov/boucher/docs/moca-summary.htm (last visited Dec. 2, 2001).

79. *Id.*

80. John Geralds, *Online Music Under US Investigation,* Vnunet.com *at* http://www.vnunet.com/News/1124484 (June 8, 2001). ("US regulators running the investigation will be examining the record giants' use of copyright and licensing practices regarding their control of online music distribution").

81. Cannon, *supra* note 55.

82. *Become A Member Of The NPG Music Club, at* http://www.npgmusic.mainsecureserver.com/cgi-bin/npgmusicclub/register.customer (last visited Dec. 7, 2001).

83. *Id.*

84. H.R. 2724, 107th Cong. § 4 (b) (2001).

85. *Id.*

86. Davie, *supra* note 61.

87. H.R. 2724, 107th Cong. § 4 (b) (2001).

88. Davie, *supra* note 61.

89. Cannon, *supra* note 55.

90. Hilary Rosen, *Statement by Hilary Rosen on the Cannon Boucher Bill, at* http://www.riaa.com/PR_story.cfm?id=442 (last visited Dec. 2, 2001).

91. Wayne Crews, *Musical Mandates: Must the Pop Music Industry Submit to Compulsory Licensing?,* CATO *at* http://www.cato.org/dailys/08-23-01.htm (Aug. 23, 2001).

92. *Id. (*broadband allows the user to download audio files in less time than a standard dial up service).

93. *Id.*

94. *Id.*

95. *Id.*

96. *Id.*

97. *Id.*

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A shorter version of this essay was the second runner-up in the 2002 Entertainment Law Initiative sponsored by the National Academy of Recording Arts & Sciences Inc. and was presented at a special luncheon.

New Trends in "New Use" Analysis

By Lesley Friedman, Melanie I. Breen and Ginger Anders

Introduction

In *Random House v. Rosetta Books*,[1] the Second Circuit recently upheld the rights of the copyright holders to license their works for digital publication, despite their previous granting of licenses for analog publication. *Rosetta* may be an early indicator of a new trend in Second Circuit "new use" analysis in cases involving the distribution of copyrighted material in digital media. Mirroring the recently decided digital publishing cases *Greenberg v. National Geographic Society*[2] and *New York Times Co. v. Tasini*,[3] the court in *Rosetta* implied that digital media cannot be considered a logical extension of traditional media. *Rosetta* cues practitioners representing artists and writers to use care in limiting the scope of distribution licenses in order to reserve the right to renegotiate—or go elsewhere—for digital media distribution opportunities that may not yet have been created. Conversely, it warns publishers that reliance on traditional "new use" analysis may now be misplaced.

Second Circuit Case Law in "Traditional" New Use Cases

The Second Circuit's analysis in *Rosetta* began with the "new use" analysis, which was laid out almost 40 years ago in *Bartsch v. Metro-Goldwyn-Mayer, Inc.*[4] *Bartsch* concerned a dispute over the right to televise the movie musical *Wie Einst en Mai*, or *Maytime*. Bartsch, who controlled the copyright in *Maytime*, had granted a license to MGM "to copyright, vend, license, and exhibit such motion picture photoplays throughout the world."[5] However, after Bartsch's death, his assigns contended that the license did not include the right to broadcast the film on television. The District Court dismissed the case on the basis that the right to televise the movie was permitted under the license to exhibit the movie, which was granted in very broad language. The Second Circuit affirmed, commenting that "[i]f the words are broad enough to cover the new use, it seems fairer that the burden of framing and negotiating an exception should fall on the grantor."[6] The court went on to find that in this case, the grant of rights in the exhibition license was broad enough to encompass the disputed right of telecasting the work. Thus the court found that the District Court's dismissal was proper.

In *Boosey & Hawkes v. Walt Disney Company*, the Second Circuit elaborated the contract-based theory of new use enunciated in *Bartsch*.[7] In 1939, the composer Stravinsky granted to Disney the right to use his composition *The Rite of Spring*, as part of the soundtrack for its film *Fantasia*. Subsequently, Boosey came to own Stravinsky's copyright in that work. Nearly 60 years after Stravinsky's initial grant, Boosey sought to enjoin the video distribution of the movie, claiming that the grant of rights to Disney was limited to "synchronism or timed-relation with *the motion picture*," and thus did not include a right to use the composition on videocassettes.[8] The court refused to accept Boosey's view of the contract. Following *Bartsch*, the court reasoned that the grant of "motion picture" rights could reasonably be read to include video distribution.[9] The court found that the burden fell on Stravinsky to reserve for himself the eventual video rights because the language of the contract arguably included the new use, and because that use was "foreseeable" at the time of the contract.[10]

> *"*Rosetta *cues practitioners representing artists and writers to use care in limiting the scope of distribution licenses in order to reserve the right to renegotiate—or go elsewhere—for digital media distribution opportunities that may not yet have been created. Conversely, it warns publishers that reliance on traditional 'new use' analysis may now be misplaced."*

In reaching its holding in *Boosey*, the Second Circuit rejected an alternative approach to "new use" problems developed by the Ninth Circuit in *Cohen v. Paramount Pictures Corp.*[11] In *Cohen*, the court reasoned that licenses must be construed in favor of the copyright transferor, in order to further the Copyright Act's purpose of protecting the rights of authors.[12] Therefore, doubts as to whether a grant included a new use should be resolved in favor of the grantor, to afford the grantor the opportunity to renegotiate licenses for new modes of distribution.

The Second Circuit rejected this approach on the basis that it would likely lead to unfairness, because parties should be able to rely on the reasonable meaning of the contract language. According to the court, the party seeking a deviation from that meaning "should bear the burden of negotiating for language that would express the limitation or deviation."[13] Instead, it decided that "neutral principles of contract interpretation" should control, rather than policy considerations or "solicitude for either party."[14]

The Digital Publishing Cases

Two important cases decided shortly before *Rosetta—New York Times Co. v. Tasini*, in the Supreme Court, and *Greenberg v. National Geographic Society,* in the Eleventh Circuit—addressed the problem of new use in the context of electronic publishing. Although *Tasini* and *Greenberg* are not traditional new use cases (they turn instead on interpretations of the language of section 201(c) of the Copyright Act, which governs copyrights in collective works), the cases provide useful context for *Rosetta* as well as future new use cases involving digital media.[15]

In *Tasini*, the Supreme Court held that electronic republications of issues of *The New York Times* were not "revisions" of collective works under section 201(c) of the Copyright Act, but rather comprised entirely new collective works. *The New York Times* had licensed NEXIS and other digital database publishers to reprint its editions in their entirety, including articles written for it by freelance authors. However, the digital publishers did not republish the editions of *The New York Times* as exact replicas: The articles in the digital databases were published separately, without being linked to articles, advertisements and other printed material also published in the same edition of the newspaper. Furthermore, the digital databases were separately searchable according to criteria for which they were individually coded.

Under section 201(c) of the Copyright Act, a freelance author retains her copyright in a contribution to a collective work such as the newspaper, but the owner of the collective work receives the right to republish the individual contributions in revisions or later editions of the collective work.[16] However, *The New York Times* claimed that section 201(c) gave it the right to license republication of the freelance articles in NEXIS and similar databases, because the resulting databases of its articles constituted a "revision" of the collective work.[17]

The Supreme Court rejected *The New York Times*' definition of "revision," reasoning that the ability of the users to manipulate the electronic databases was enough to render the databases new works entirely, rather than revisions of *The New York Times*' print editions. Thus, the publishers of the new works would need separate licenses from the copyright holders. The databases' search capabilities allowed users to retrieve individual articles apart from the context originally provided by the newspaper, so that the user would not be viewing the article as part of the original edition or a revision.[18] Microform, in contrast, constituted a revision of the original work, because it preserved the form of the newspaper, and did not allow users to retrieve articles without viewing the surrounding material as originally published in the paper.[19] The Court affirmed the ruling below that *The New York Times*' privilege under section 201(c) to publish "revisions" of its previous newspapers did not encompass the privilege to license others to publish the articles in digital form without reproducing the whole of each edition of the newspaper in which the articles were originally published.

As in *Tasini*, the Eleventh Circuit court in *Greenberg* held that digital republication of a copyrighted work, once a part of a collective work, constituted a new use of the work, and not a "revision" permissible under section 201(c). The plaintiff in *Greenberg* was a photographer whose work appeared in *National Geographic* magazine. Subsequently, *National Geographic* contracted with Mindscape, Inc. to produce a CD-ROM series collecting all of the past editions of *National Geographic* magazine. In addition to digitally reproducing the magazines as a whole, the CD-ROMs contained a visual sequence in which photographs that had appeared in the magazines were displayed on a computer in a visual montage in which one image overlapped with, or "morphed" into, another. Greenberg sued, alleging copyright infringement, as *National Geographic* had only the privilege under section 201(c) to publish a "revision" of the collective work in which the photograph first appeared. Reproduction of the photograph in the digital montage, Greenberg argued, was not a right held by *National Geographic* under the terms of section 201(c). Thus, he argued, his right as the copyright holder to publish the photo in a digital medium was his alone.

The court affirmed a grant of summary judgment in favor of Greenberg. It reasoned that "common-sense copyright analysis compels the conclusion that [National Geographic], in collaboration with Mindscape, has created a new product ('an original work of authorship'), in a new medium, for a new market that far transcends any privilege of revision or other mere reproduction envisioned in § 201(c)."[20] Indeed, the court concluded, the digital montages were, in fact, new collective works altogether. The court noted that "the critical difference, from a copyright perspective, is that the computer, as opposed to the machines used for viewing microfilm and microfiche, requires the interaction of a computer program in order to accomplish the useful reproduction involved with the new medium."[21]

Rosetta: The Second Circuit Views "New Use" in the Digital Context

In *Random House v. Rosetta Books*, the Second Circuit upheld the ruling of the Southern District of New York that a grant of rights to publish a literary work "in book form" did not include the right to publish the work in digital form. In *Rosetta,* Kurt Vonnegut and several other renowned authors, wishing to take advantage of the new markets for literary works created by the Internet, contracted with Rosetta Books to create "eBooks" of such works as *Slaughterhouse Five* and others. EBooks, like traditional books, allow readers to view the text of a work as the author has written it—albeit on a computer screen. Yet they also allow the reader to interact with the work itself, by searching and highlighting text, and by inserting comments that can be stored with the related text.

The rights-holders in *Rosetta* had previously granted the right "to print, publish and sell the work in book form"[22] to Random House, a traditional paper publisher. The day after Rosetta Books launched its eBook business in February 2001, Random House sued it for copyright infringement.

The District Court denied Random House a preliminary injunction on the issue of copyright infringement. The Second Circuit affirmed the District Court's denial of a preliminary injunction.[23]

Relying heavily on *Bartsch* and *Boosey,* the District Court held that the most reasonable interpretation of the grant in the contracts at issue to "print, publish, and sell the work in book form" does not include the right to publish the work as an eBook.[24] Thus, the authors could validly grant the right to publish eBooks to Rosetta Books. The court reasoned that the author's grant of rights to Random House was not broad, as in *Bartsch* and *Boosey*, but that each was limited in its own particular way. For instance, some authors had granted Random House the right to reprint the books in serial form, or in book club or abridged editions, while others did not. Looking to these specific provisions of each contract, and relying on the basic principles of contract interpretation, the court reasoned that if the grants of rights to Random House were broad, there would be no need for the specific provisions. The industry custom that the "in book form" clause contemplated only traditional paper books, combined with the inherent differences between the two media, convinced the court that the contract language was unambiguous in its failure to include digital publication among Random House's rights.

The District Court took cues from both the *Tasini* and *Greenberg* courts' treatment of publishing in digital media. Indeed, the principles animating these digital publishing cases may have pushed the *Rosetta* District Court to buck the trend in new use cases, and to find in favor of copyright owners instead of licensees. The District Court in *Rosetta* noted that eBooks are a different medium than paper books, because eBooks are composed of digitally stored text that can be manipulated by the user. In addition, eBooks require a software program to translate the data into readable form, distinguishing them from traditional analog books.[25] *Rosetta* echoes *Greenberg* in setting forth the proposition that one of the major factors making digital formats different from analog formats is "[t]he need for a software program to interact with the data in order to make it usable, as well as the need for a piece of hardware to enable the reader to view the text."[26] Likewise, the Supreme Court noted in *Tasini* that the user interaction necessary to make use of digital databases of copyrighted works was crucial to the conclusion that such databases did not constitute "revisions" under section 201(c).[27] This observation is paralleled by the court in *Rosetta,* which observes that the digital medium's capability for user interactivity militates against a finding that a literary work published in a digital medium is a permissible new use under a traditional, analog publishing license.[28]

These decisions suggest a growing consensus among federal courts that digital media are qualitatively different from traditional media in the new use context. The factors that seem to influence the courts' analyses most are the digital medium's capacity for user manipulation, and the way the technology is applied to the content.

In traditional new use cases, like *Boosey* and *Bartsch*, the courts sought to strike a balance between the grantor's exclusive copyright rights and the incentive for developing new means of distribution, which was often undertaken by grantees. The development of digital media and the industry surrounding it may have shifted the balance in this equation. While the courts in *Boosey* and *Bartsch* were concerned with avoiding the "antiprogressive incentives" of a new use analysis favoring grantors, the court in *Rosetta* noted that concerns about "antiprogressive incentive" were mitigated, if not eliminated, by the way in which new technology currently develops. "In the 21st century, it cannot be said that licensees such as book publishers and movie producers are *ipso facto* more likely to make advances in digital technology than start-up companies."[29]

The Practical Implications of *Rosetta*

Rosetta suggests that the courts are now willing to interpret major limitations on a grant of distribution rights to prohibit any new uses for which licensing opportunities may arise after the execution of the contract. Yet even under this new "new uses" regime, by the lights of *Tasini*, parties can still "protect their interest by private contractual arrangements."[30] Indeed, the Court in *Tasini* implies that, in order to facilitate the distribution of freelance articles in digital media, some form of compulsory licensing scheme may be an option where the publishers and rights-holders cannot agree on digital publication terms. Rather than issue an injunction against electronic publication of freelance articles in *Tasini*, the Court suggests that "if necessary, the courts and Congress may draw on numerous models for distributing copyrighted works and remunerating authors for their distribution."[31]

Finally, *Tasini, Greenberg* and *Rosetta* will permit rights-holders to ask for compensation for new uses made of their copyrighted works. These decisions have already breathed new life into other lawsuits such as *Chambers v. Time Warner, Inc.*,[32] in which artists/copyright owners seek to prevent the digital distribution of their works by licensees licensed to distribute their recordings in analog form. *Chambers* was dismissed before the decision in *Tasini*, but has since been reopened.

Tips for Practitioners After *Tasini, Greenberg* and *Rosetta*

In a market where works are increasingly distributed in digital form, it is important to be particularly attentive to the limitations imposed on the rights granted in a distribution contract.

Specific definition of what rights are granted: Defining a grant of rights in specific terms will eliminate much uncertainty about which rights have been granted in a license. Lawyers representing rights-holders should define the rights granted as specifically as possible, describing, for example, to what extent licensees can alter the work, how the work may be displayed or delivered and in what media the licensee is permitted to distribute the work. To protect the copyright holder's ability to profit from means of distribution later developed, it would be wise for such practitioners to draft contracts with the clause, "all rights not expressly transferred are reserved and must be negotiated separately by the author."[33]

Practitioners representing publishers and other licensees, on the other hand, will prefer the grants of rights to be as broad as possible, following the holdings in the *Bartsch/Boosey* line of cases, which instruct that broad contract language is more likely to incorporate new uses. Those drafting on behalf of licensees should specifically include in the terms the right to the work in "all media currently known, or hereafter created," in order to assure the right to exploit the work in media not yet developed when the license is executed.

In *Rosetta*, all of the authors struck out certain portions of the form licenses in their grants of publishing licenses to Random House. This limitation on the rights granted by the authors persuaded the court that they intended to grant only limited rights to the publisher.[34] Following that example, practitioners representing rights-holders who are confronted with a form license may avail themselves of the opportunity to strike out the clauses in excess of the minimal rights they intend to grant. Conversely, those representing licensees using form licenses should take extra precautions when grants of certain rights have been visibly stricken out.

Additional fees for each right granted: Those representing publishers and rights-holders alike may find that there are advantages to drafting the contract so that each right granted corresponds with a specific fee paid for the right. Although disadvantageous to licensees in that it does not provide a broad license, this approach could aid licensees by setting a "market rate" for each use of the works, and thus spare them from potentially exorbitant royalties for desired new uses. This approach is also beneficial to rights-holders, because it both precisely defines the scope of the grant and provides a starting point for negotiations for a new grant of rights.

Limitations on the duration of rights granted: One of the lessons of *Greenberg* was that a grant of rights limited in time, with an automatic reversion to the copyright holder, will alleviate uncertainty surrounding new uses, particularly now that digital uses seem to be construed by courts to be outside the scope of a general analog license. In *Greenberg,* the photographer licensed use of his photo to *National Geographic* for 60 days only; thereafter the copyright reverted to him.[35] Practitioners representing copyright holders should follow this example and draft licenses to use copyrighted works for a limited duration, such as six months or one year, after which all rights revert automatically to the original rights-holder. Conversely, those representing publishers and other licensees should be wary of temporally limited grants, because automatic reversion of rights to the artist could undermine licensees' ability to exploit the work through new modes of distribution created after the automatic reversion.

Words with trade-usage meanings: The court in *Rosetta* based its decision, in part, on the fact that the grant of rights to Random House to publish the authors' works "in book form" was understood within the publishing industry to mean analog, and not electronic, books. Practitioners should be wary of the reflexive use of boilerplate or industry terminology and understand that these familiar words could become traps—or time warps—as technology develops.

Endnotes

1. 283 F.3d 490 (2d Cir. 2002).
2. 244 F.3d 1267 (11th Cir. 2001).
3. 533 U.S. 483 (2001).
4. 391 F.2d 150 (2d Cir. 1968).
5. *Id.* at 153.

6. *Id.* at 155.
7. 145 F.3d 481 (2d Cir. 1998) (Leval, J.).
8. *Id.* at 484 (emphasis added).
9. *Id.* at 486 (*citing Bartsch v. Metro-Goldwyn-Mayer, Inc.,* 391 F.2d 150 (2d Cir. 1968)).
10. *Id.* at 487.
11. 845 F.2d 851 (9th Cir. 1988).
12. *Id.* at 854.
13. *Boosey*, 145 F.3d at 487.
14. *Id.*
15. In both *Tasini* and *Greenberg,* the courts treated § 201(c) as tantamount to a license to publishers to use freelance contributions in certain limited situations.
16. 17 U.S.C. § 201(c) (2000).
17. *Tasini,* 533 U.S. at 499.
18. *Id.* at 499-500.
19. *Id.* at 501.
20. *Greenberg*, 244 F.3d at 1273.
21. *Id.* at 1273 n.12.
22. *Rosetta,* 150 F. Supp. 2d at 621.
23. 283 F.3d 490 (2d Cir. 2002).
24. *Rosetta,* 150 F. Supp. 2d at 620.
25. *Id.* at 622.
26. *Id*.
27. *Tasini*, 533 U.S. at 504.
28. *Rosetta*, 150 F. Supp. 2d at 622.
29. *Id.* at 623.
30. *Tasini*, 533 U.S. at 502 n.11.
31. *Id.* at 505.
32. 123 F. Supp. 2d 198 (S.D.N.Y. 2000).
33. *See* National Writers' Union, *Journalist Electronic Rights Negotiation Strategies*, at http://www.nwu.org/journ/jstrat.htm.
34. *Greenberg*, 150 F. Supp. 2d at 620.
35. *Greenberg,* 244 F.3d at 1269.

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New York Choice of Law in Endorsement Contracts: Safe Harbor or Oxymoron?

By James H. Schnare II

In the modern era of global information systems and marketing initiatives, commercial lawyers who practice inside and outside the state of New York are regularly called upon to consider choice of law provisions in a variety of contractual relationships outside the traditional areas covered by the Uniform Commercial Code. Given the complexity of modern law and the speed at which lawyers are required to document transactions using computers and e-mail delivery of documents, the negotiation of these clauses often becomes a hasty "coin flip," or worse. Many attorneys assume that all American law is created equally and accept the forum selected by the draftsman of the document, ostensibly on the theory that engrafting a different set of substantive law rules might require both parties to review and reconsider the "boilerplate" of the document. More often, and regrettably for our clients in many cases, choice of law is determined by the "golden rule"—the party with the most negotiating leverage in the deal imposes the law most familiar to its lawyers as a way of securing an apparent hometown advantage in future litigation.

"Given the complexity of modern law and the speed at which lawyers are required to document transactions using computers and e-mail delivery of documents, the negotiation of [choice of law] clauses often becomes a hasty 'coin flip,' or worse."

For a variety of commercial transactions, New York law is internationally recognized as a prudent choice, due to the broad coverage and general attention to detail of its legislation and the depth and quality of the reported New York case law. The New York legislature has specifically recognized the value of New York law as a common meeting ground for multi-state or multinational commercial transactions and has encouraged its adoption in contracts by foreign parties.[1]

Given this general background, it would seem natural for lawyers representing New York parties to a celebrity endorsement contract to require the application of New York law, and for lawyers from other jurisdictions to naturally support that choice of law in negotiations. However, the commercial law of New York, which functions so well in so many other situations, happens to have some curious "blind spots" when it comes to recognizing and protecting the commercial rights of celebrities in the use of their names and identities. The application of sections 50 and 51 of the Civil Rights Law[2] (the "Privacy Statute") as the chosen law of an endorsement contract may not be fatal as a practical matter in any particular transaction or dispute. However, practitioners who are called upon to negotiate celebrity endorsement agreements with a New York nexus should have a basic understanding of the unique nature and purposes of these contracts and the distinctive history and current state of New York law under the Privacy Statute before blindly requesting or accepting a New York choice of law clause for their clients.[3]

Endorsement Agreements—The Business Context

In the industrial world of the early 20th century, mass marketing efforts were still largely concentrated on developing "goodwill" by associating the commercial name or symbol adopted by a product vendor with the quality of the products distributed by such vendor in the mind of a customer or potential customer. The promotion of goods through advertising or publicizing a commercial name or symbol affixed directly to the goods, which dates back at least as far as the medieval guild system in England, presumes that the name or symbol of the product or manufacturer is the driving force in a consumer's purchasing decision. This concept was the basis for federal trademark law under the Lanham Act[4] and its predecessors, as well as various similar foreign trademark laws and multilateral treaties on the subject. The thought of assigning a commercial value to the "Identity"[5] of a celebrity in this context (although celebrity promotion has been used by enterprising advertisers in this country since before the days of George Washington) was contrary to many early courts' limited view of the world of goodwill.[6]

With modern marketing techniques and a celebrity-driven media culture, the practical concept of "goodwill" has moved in almost the opposite direction, to the point where proprietors of traditional trademarks routinely pay millions of dollars to entertainment and sports figures to lend their Identities to draw public attention to commercial names and symbols, and by implication, to the branded products or services represented by these trademarks. The most visible example of the long-term marketing potential of this approach was demonstrated by the explosive worldwide growth of the Nike® brand from the 1970s through the 1990s, which was achieved through the constant association of its trademarks with various sports stars (most notably Michael Jordan). In the case of Nike®, the distinctive name and "swoosh" trademarks of a specialty footwear brand with a relatively small but loyal following were transformed into international icons by repeated public association with its highly visible media spokesmen. These athletes lent (or more appropriately, rented) Nike their fame and aura of excitement, and Nike used the attention generated by its contract stars to build ever greater recognition of the company's trademarks and underlying product offerings. This mass brand recognition allowed Nike to leverage the value of its brand, in a variety of sports and apparel contexts, far beyond its trademarks' limited roots as a designation for well-engineered and high-quality athletic specialty shoes.

"[There is] good evidence that our celebrity-driven world has caused the legal underpinnings of trademark law to turn inside out—to the point where an individual endorsement covered only by the 'personal' law of individual states has become a stronger source of good-will than the underlying commercial name or symbol of a marketer . . ."

The latest "image" advertising campaign by Ford Motor Company uses its Chairman, William Clay Ford, to make a personal appeal to consumers to support the brand originated by his famous grandfather after public battering of the corporate trademark. This may be an even more telling commentary on the pervasive impact of endorsement-based marketing in modern America. Image advertising using a corporate leader is nothing particularly new, and it was used with some success by Lee Iacocca in the auto industry decades ago. However, the Ford spots appear to be a particularly clever effort to personify and regenerate the goodwill of one of America's best known and longstanding brands by producing a "real live Ford" as a celebrity spokesman to the television public. In the wake of the Explorer® scandal, these spots are a tacit admission by Ford's marketers of their faith (which is likely well founded) that the power of personality outweighs the power of association underlying traditional trademarks with the modern consumer. They also provide good evidence that our celebrity-driven world has caused the legal underpinnings of trademark law to turn inside out—to the point where an individual endorsement covered only by the "personal" law of individual states has become a stronger source of goodwill than the underlying commercial name or symbol of a marketer, which is protected by federal commercial law.

The modern business of celebrity endorsement licensing can be broadly defined to include any transaction where an unrelated party seeks a contractual association with a celebrity for the purpose of attracting public interest and attention to products or services or building the general image or trademarks of that party. In addition to a license or consent relating to the use of rights protected by privacy and publicity law, an "endorsement" contract often includes provisions requiring a living celebrity to render personal services. It may also include a standard trademark license covering use of a nickname or symbol associated with the celebrity, if this element has been registered or has acquired independent significance as a trademark.

However, for purposes of this article, it will be less complicated if we assume that the heart of a celebrity endorsement contract is a grant of rights to use the Identity of a celebrity for one of two related, but distinct, business ventures. In the first type of venture, a manufacturer or vendor of a product or service which is independent from the celebrity's Identity seeks to have the celebrity "endorse" that separate product and service in the classical sense, by using it personally in a professional or public setting and extolling its virtues to the general public. While these "products" do not embody the Identity, they are often complimentary, such as the endorsement of sports equipment by an athlete or the endorsement of a clothing line by a supermodel. In this context, the license of the Identity of the endorser allows the client to produce and disseminate media advertising and publicity materials, which convey the endorsement relationship to the public. In the second type of venture, the Identity of the celebrity forms the basis for the very product itself, such as a "commemorative" item, doll or action figure, or depiction of the Identity in graphic art, audio and/or visual form. This form of venture may well involve a collateral license to utilize the Identity in media advertising and publicity materials, but the value of the Identity will be embodied in the product itself, regardless of the means of promotion.

In both types of transactions, the fame of the celebrity is used by the advertiser or promoter as a "hook" to attract attention and influence consumers to purchase goods or services. The use of an Identity may also function in a trademark sense, if the Identity has established trademark significance apart from the personality of its owner and the circumstances indicate a direct association of that trademark Identity with the goods or services. Endorsements can also carry a somewhat different underlying commercial message, which might be labeled a "quasi-trademark," because modern consumers commonly associate the perceived social status and attractiveness of goods and services with the reputation of the celebrities associated with them without necessarily associating the celebrity as a source of the products or arbiter of quality control standards.[7] Regardless of the ultimate objects of the business venture, the parties on either side will have a common interest in utilizing the Identity as an intangible personal property right which can be defined, licensed and controlled as the object of a modern commercial contract, and neither is likely to view the transaction in terms of an invasion of privacy or to see their contract as limited by concepts applicable to a consent to engage in conduct which would otherwise be tortious.[8] However, by making an uninformed reference to the current body of New York law, the parties may be importing those very concepts into the contract between them.

Privacy Lost—The History of the Privacy Statute and Case Law

The Court of Appeals was squarely presented with the issue of misappropriation of an Identity in the case of first impression for privacy rights in New York, in *Roberson v. Rochester Folding Box Co.*[9] In that case, the defendants appropriated without consent or compensation the likeness of the plaintiff, a young woman who was not a professional model, for use on posters and circulars used to advertise Franklin Mills Flour as the "Flour of the Family." In an unfortunate confluence of Victorian manners and judicial restraint, the Court ignored the obvious deliberate actions and unjust enrichment of the defendants and directed that no cause of action be recognized in favor of the plaintiff for invasion of her privacy. In analyzing the English Chancery decisions used as the basis for the famous Warren and Brandeis article on privacy rights,[10] the *Roberson* Court made the reasonable (but ultimately ironic) declaration that the precedents only supported a cause of action grounded in breach of trust or property rights.[11] With obvious concern for the difficulty of evaluating the mental suffering of individuals not libeled in the traditional sense, and having no desire to encourage a new class of potential litigation on the subject, the Court of Appeals categorically rejected the existence of any common law privacy right in New York over a vigorous dissent suggesting that the majority had ignored the role of equity practice in keeping pace with social change.[12] In a judicial aside, which was unfortunately taken literally by the legislature and thereafter enshrined as a limitation on New York law through the circular reasoning of subsequent decisional law, the *Roberson* Court suggested that "[t]he legislative body could very well interfere and arbitrarily provide that no one should be permitted for his own selfish purpose to use the picture or the name of another for advertising purposes without his consent."[13] In 1903, the legislature obliged by adopting the Privacy Statute to overrule the decision in *Roberson*—and the more cynical among us might suggest that the Court of Appeals has treated this legislation in the ensuing century as the "arbitrary" provision of a limited right to individuals and an "interference" in the Court's effort to avoid recognizing individual privacy rights under the common law of New York.

Although adoption of the Privacy Statute made New York a leading jurisdiction in the protection of individual rights, and was undoubtedly a forward-thinking model for its time, both the statutes and the decisional law of the New York courts under it suffered from the conceptual limitations imposed by the basic rule of decision of the Court of Appeals in *Roberson* and the legislature's direct response to it. While both steps had logical merit, the net effect in New York law was to move further away from any conception of property rights in the intangible value of a person's Identity, rather than to resolve the original "disconnect" between the concept of property rights enforceable in equity and offenses to the person not recognized at law which formed the basis for the majority opinion in *Roberson*. This effort was ably attempted a half-century later by Judge Frank of the Second Circuit in *Haelen Laboratories, Inc. v. Topps Chewing Gum, Inc.*,[14] in a case involving the voluntary licensing of baseball players' Identities in the trading card business. After reviewing the limitations of the Privacy Statute, and the difficulty of applying its conceptual framework to voluntary licensing of the Identity of a celebrity, the court identified the underlying property right[15] and found it to be consistent with New York common law:

> We think that, in addition to and independent of that right of privacy (which in New York derives from statute), a man has a right in the publicity value of his photograph, *i.e.*, the right to grant the exclusive privilege of publishing his picture, and that such a grant may validly be made "in gross," *i.e.*, without an accompanying transfer of a business or of anything else. Whether it be labeled a "property" right is immaterial; for here, as often elsewhere, the tag "property" simply symbolizes the fact that courts enforce a claim which has pecuniary worth.
>
> This right might be called a "right of publicity."

This concept of a freely assignable commercial right became the modern view in numerous jurisdictions by case law and statute,[16] and has provided the theoretical underpinning for the explosion in number and dollar value of commercial endorsement contracts in the last half of the 20th century.

Unfortunately, those New York practitioners in the field and federal judges in the Second Circuit who were provided a taste of freedom from the strictures of the Privacy Statute by the *Haelan* decision were to lose that freedom after a mere three decades. In *Stephano v. News Group Publications, Inc.*,[17] the Court of Appeals correctly noted that the Privacy Statute is not, on its face, limited in its application to plaintiffs such as Ms. Roberson who seek to avoid unwanted publicity. It further reviewed cases under the Privacy Statute that provided remedies that were functionally equivalent to the remedies which the plaintiff in *Stephano*, a model who alleged a use of his picture in excess of the limits of his original consent, sought under a right of publicity theory. Having made these two eminently logical steps, the Court then attempted to harmonize the very different legal sources and purposes of the "right of publicity" by the *ipse dixit* declaration that "[t]he right which the statute permits the plaintiff to vindicate in such a case may, perhaps, more accurately be described as a right of publicity."[18] Without any real analysis of the fundamental conceptual difference between the New York statutory right grounded in appropriation of privacy and the conception of an independent commercial publicity right developed by the Second Circuit as a matter of common law, and without noting the logical consistency between the publicity right (whether labeled as "property" or not) asserted by the plaintiff and the line of Chancery cases originally distinguished by the Court in *Roberson*, the *Stephano* Court ruled that the Privacy Statute had effectively preempted any extension of the common law in this area and was therefore a limitation on the personal commercial rights to be accorded to individuals under New York law.[19]

Subsequent efforts have been made by New York legislators and practitioners to modernize the Privacy Statute to avoid the inherent limitations of New York common law as declared in *Stephano*, and these may ultimately result in legislation more compatible with modern endorsement licensing practices. However, lawyers seeking to deal in the commercial rights of celebrities are faced with the cold reality that New York has been among the most hostile jurisdictions in the nation toward recognizing these rights historically, and can be expected to be so indefinitely, due to the aggressively practiced judicial restraint of the Court of Appeals in this area. In its most recent pronouncement to the Second Circuit on the Privacy Statute,[20] the Court of Appeals indicated its commitment to tightening the noose of the "statutory preemption" doctrine first declared in *Stephano* by stating:

> This Court has consistently restated several basic principles concerning the statutory right of privacy. First, recognizing the Legislature's pointed objective in enacting sections 50 and 51, we have underscored that the statute is to be narrowly construed and 'strictly limited to nonconsensual commercial appropriations of the name, portrait or picture of a living person.'[21]

"Given the rigidity and internal inconsistency of the Court's dictum in the recent Messenger *case,it is doubtful that New York will become a favorable jurisdiction for endorsement relationships at any time in the foreseeable future . . ."*

Thus, having relied upon cases[22] prior to *Stephano* which liberally construed the Privacy Act as a remedial statute in order to "subsume" the common law right of publicity within a narrowly drafted statute, the Court of Appeals now appears committed to rely upon the limitations of the statutory mandate to avoid giving effect to rights not squarely contemplated by the express terms of the Privacy Act. Beyond the internal contradiction in this line of reasoning, there is nothing in the original basis for the *Roberson* decision or action of the legislature in response to that case which logically requires such a result, and it is totally inconsistent with the tenor of other tort law decisions by the Court of Appeals which have permitted the evolution of the common law of torts to keep pace with changes in society (like the popularization of the automobile, for one) which have occurred since the *Roberson* decision.

While it is impossible to predict how the Court of Appeals' restrictive attitude would directly impact the substantive application of New York law to any particular endorsement contract, its basic refusal to accept a commercial right outside of the Privacy Act and reluctance to construe the statutes to imply a true commercial right within the context of the statutes makes reference to New York law a questionable exercise. Given the rigidity and internal inconsistency of the Court's dictum in the recent *Messenger* case, [23] it is doubtful that New York will become a favorable jurisdiction for endorsement relationships at any time in the foreseeable future, regardless of future remedial steps which may be taken in furtherance of the unquestioned right to "interfere" further in favor of individual commercial rights by future "arbitrary" legislation.

The Substantive Choice of Law Issue

Many contract lawyers request or accept choice of law clauses on the assumption that they cover only the general common law "rules of construction" generic to contract law, and that the application of the chosen law will have no substantive impact upon the basis of the bargain made by them or the enforceability of particular terms, conditions and limitations in the contract itself. If this limited view were rigorously true, it is likely that New York would be a good source of law by virtue of its wealth of reported cases on rules of construction and the meaning of general commercial contract terms. However, as the Restatement Second, Conflicts section 187 makes clear, any reference to the local law of an applicable jurisdiction made by contracting parties may be utilized by a forum court to determine the substantive effect of the contract. This may include the interpretation of ambiguous terms in the context of terms of art taken from the statutes or case law of the chosen jurisdiction, but it may also allow the incorporation by reference of rights, remedies and obligations from the chosen law, which the parties could have supplied by express contractual terms.[24]

The ability to imply matters from the chosen law into an otherwise silent contract goes somewhat beyond many popular notions of the substantive impact of a contractual choice of law. However, the Restatement rule goes further in its effort to assure that the application of the legal system adopted by the parties is given full effect by a forum court. Subject to certain protective provisions designed to preserve the public policy of a forum state or a state with the most significant contacts to a transaction,[25] the law chosen by parties becomes, in effect, the "law of the contract," and is applied "to govern their contractual rights and duties . . . even if the particular issue is one which the parties could not have resolved by an explicit provision in their agreement directed to that issue . . ."[26] While use of this rule to determine issues of contract formation such as capacity and formalities is consistent with the expectations of most practitioners, the rule also applies to the determination of issues of substantial validity relating to the contract.[27] As explained in a companion section of the Restatement,[28] these include such important (and potentially conflicting) issues relating to endorsement contracts as necessary parties and the existence and sufficiency of consideration to support a contract.[29]

Although the "party autonomy rules" of the Restatement have been criticized because they "either go too far or not far enough"[30] to meet the expectations of the parties with respect to the validity of their agreements, they have been generally adopted as the law of New York.[31] Of particular concern to the commentators, and of more than passing application to this article, is the issue of an erroneous or ill-considered choice of law which would serve to invalidate a contract which the parties obviously intended to perform. Where the issue of validity goes to the enforceability of an entire contract, the Restatement suggests that a forum court should exercise its judgment to preserve the validity of the contract, if a reasonably available judicial choice of law would accomplish this result.[32] While the same rationale could be applied by courts on a selective basis to apply or ignore the law chosen by the parties to individual provisions of their contract to assure that all would be upheld as written,[33] neither the language of the Restatement nor the New York authorities necessarily support that result.[34]

Moreover, any effort in breach-of-contract litigation to cause a post-*Stephano* New York court to exercise judicial discretion to preserve the overall validity of an endorsement contract, or the validity of specific clauses that are premised on the existence of a substantive right of publicity, may in itself lead to even stranger results than would otherwise apply under the first rule of the Restatement.[35] This is so because the judge will have to twist the expressed and unexpressed intentions of the parties to fit the strictures of the Privacy Law as perceived by the Court of Appeals. The Restatement suggests that, where the law selected by the parties requires a court to give a particular legal effect to any words or phrases used in a contract, the court's determination is to be made strictly in accordance with the applicable law regardless of the subjective intentions of the parties.[36] Faced with a conflict between contractual language based upon traditional concepts of publicity rights and the single-minded direction of the Court of Appeals to determine all issues under New York law within the confines of the Privacy Statute, the commentators of the Restatement have suggested that: "The forum will neither interpret nor construe the word or phrase. It will give the word or phrase the arbitrary meaning required by the applicable law."[37]

Particular Problems in the Application of New York Law to Endorsements

This article was born out of the thesis that a practitioner should never invite uncertainty into a commercial transaction by selecting the law of a jurisdiction that does not fully recognize and support the commercial rights underlying such transaction. As noted above, New York law may indeed provide tort remedies to a living individual, which are a reasonably functional equivalent to the remedies one would have under the statutes and/or common law of other jurisdictions that recognize publicity rights in the normal sense. However, providers and users of publicity would still be well-advised as a matter of principle to steer clear of New York law, given the divergent history of the New York cases in the area of privacy and publicity rights and the failure of the legislature to as yet act decisively and on a comprehensive basis. As with many legal issues in the area of endorsement marketing, there are too few cases in even the leading jurisdictions to categorically demonstrate the superiority of any state's law, and much of the recommendation to avoid New York on this issue is based on a generalized fear that any body of law which excites the interest of learned commentators and academics is singularly unsuitable for incorporation into a commercial contract. There are, however, some areas of concern that arise from particular applications of the Privacy Act to issues relating to the endorsement business.

Assignability of Personal Rights; Privity of Contract

By denying the existence of a true "publicity" right, or more specifically, by stating that the only "publicity" right in an Identity recognized under New York law is a personal right of consent under the Privacy Statute,[38] the Court of Appeals has called into question the ability of a celebrity to exploit his or her Identity under New York law except through a direct consent in favor of the end-user of such rights.[39] The most recent significant New York case on this point, *Rosemont Enterprises, Inc. v. Random House, Inc.*,[40] held that a corporate assignee of the publicity rights of Howard Hughes had no standing to sue for an alleged violation of the Publicity Statute. By implication, the same rationale used by the *Rosemont* court—that the rights under the Privacy Statute are "purely personal"[41]—would require the individual holder of the privacy right to join as the real party in interest in any contract licensing that individual's Identity, regardless of whether or not any personal services were required in connection with such contract.

By comparison, the Florida statute expressly recognizes the right of an individual to license publicity rights through an independent entity.[42] Because of the freedom of contract under Florida law, it has become customary for celebrities in that state to conduct their endorsement business through independent entities similar to the one established by Howard Hughes and rejected by the Supreme Court in the *Rosemont* case. This business model has several financial advantages for the celebrity, which can be factored into the net price ultimately paid by the endorsement client. First, it allows the celebrity to be employed by his or her own entity, which can significantly reduce the costs of self-employment taxes and permit an individual endorser to participate in tax-advantaged pension and benefit plans and corporate "perks." The celebrity is also able to obtain some limitation of liability for the errors and omissions committed by staff members in the conduct of an endorsement business, since they serve as agents of the "entity" in this model and not the individual celebrity for purposes of *respondeat superior* doctrines. Although an endorsement client will generally want a celebrity to acknowledge in writing to the authority of his or her licensing entity, and will also want to obtain written confirmation of the celebrity's consent to provide any collateral personal services which may be required under the contract, it is seldom necessary or valuable to a client to demand the assumption of unlimited personal liability by a celebrity in connection with an endorsement agreement. Finally, the ability of a celebrity to "pool" all of his or her endorsement and licensing businesses in a separate and distinct legal entity allows the celebrity to engage in the kind of sophisticated discounting techniques of modern estate planning, which require the fractionalization of interests in income-producing "property," through family-held entities and trust vehicles. In addition to the obvious benefits to a celebrity, the entity model also benefits the endorsement client by "packaging" the services of an individual endorser into a broader contract with his or her employer, thus negating any implication of direct employment and saving the entity from having to resort to the always tedious and sometimes risky vagaries of the independent contractor regulations under the Internal Revenue Code.

It is not uncommon for practitioners in strict "right of privacy" jurisdictions to use common law agency concepts to get around the requirement for direct privity of contract, which would logically follow the application of New York law to the substantive issue of necessary parties to an endorsement contract. Another "rough justice" solution may be merely to have the individual join as a party to the contract generally, without making any effort to delineate any corporate separation between the individual and the licensing entity. Unfortunately, by attempting to create the direct privity of contract required under the concepts of the Privacy Statute, both of these structures can easily be interpreted as creating unlimited personal liability in the celebrity for contract and tort claims arising out of the relationship (instead of limiting such liability to the personal errors and omissions of the celebrity as a fellow employee of the licensing entity). They can also be seen as vesting the individual celebrity as a "principal" with the sole constructive right to receive payment under the contract, rather than giving a distinct legal entity the direct right to earn income from the exploitation of rights. If payments made to a licensing entity are later recast as an assignment of payment rights from the principal, the assumptions underlying the celebrity's income and estate tax plans (and any returns filed in furtherance of such plans) are called into question. This may not be a major issue if the celebrity spends everything generated from the endorsement business on a current basis. However, the distinction between individual and corporate rights to receive income and the ultimate risk of re-characterization of income-generating transactions with clients in a "three party" deal can have a substantial adverse impact upon the ultimate tax treatment of any entity that is used by a celebrity to accumulate and transfer wealth.

"[T]he practical experience of the modern entertainment industry with celebrities such as Marilyn Monroe and Elvis Presley would indicate that death does not necessarily diminish the commercial value of a celebrity's Identity."

Survival of Rights

A more vexing issue for the parties is the potential impact of the death of an individual endorser on the substantive rights of contracting parties if the endorsement contract specifies New York law. The history of New York law denying rights and remedies to survivors for appropriation of their decedents' Identities is of more longstanding duration than its rejection of the rights of living individuals, having been decided by the Court of Appeals in the 19th century case of *Schuyler v. Curtis*,[43] which it strongly relied upon in support of its decision in *Roberson*. The basis for the *Schuyler* decision, as in more recent cases applying the Privacy Statute to a similar effect in cases involving the sensibilities of survivors,[44] is that any right to redress for invasion of privacy for an unauthorized appropriation of an Identity covered by the Privacy Statute is personal to the decedent, and therefore cannot survive death.

Although this may well be a logical (if sometimes harsh) result as applied to cases involving personal feelings of a family, the New York opinions have extended this rationale to cases involving the assertion of purely commercial interests by the survivors.[45] The Court of Appeals has not reached the issue, but tacitly approved the rationale as part of its holding that any publicity rights in New York were necessarily subsumed within the Privacy Statute.[46] The New York antipathy for recognizing a true commercial right under the Privacy Statute may have a limited negative effect upon the parties to endorsement contracts if we assume, like the commentators of the Restatement Third, Unfair Competition, that ". . . the dignitary and proprietary interests that support the recognition of a right of publicity become substantially attenuated after death."[47] However, the practical experience of the modern entertainment industry with celebrities such as Marilyn Monroe and Elvis Presley would indicate that death does not necessarily diminish the commercial value of a celebrity's Identity. In some cases, like the late singer/songwriter Jim Croce, and many painters, sculptors and other artists, death may actually cause the public to "discover" a marginally famous individual and greatly increase the commercial value of that celebrity's Identity.

Statutes such as Florida's make a distinct effort to avoid the implication of any contrary principles of the common law of privacy that might otherwise create an automatic disconnect in contractual relationships in the event of an endorser's death.[48] For the survivors of an individual celebrity and the staff or outside agents charged with responsibility for maintaining a licensing program, the automatic termination of all of that individual's endorsement agreements in the event of an untimely death can be devastating. Not only would they lose the ongoing cash flow necessary to maintain their lifestyles and cover their business expenses—this would happen at a time when all of the celebrity's other business and contractual relationships would be in a state of turmoil. Moreover, the automatic termination of endorsement contracts on the death of an endorser may create an unintended self-fulfilling prophecy of loss of commercial value of the kind contemplated by the Restatement Third, Unfair Competition, since an abrupt termination of advertising and promotional use of a celebrity's Identity after death takes away an important (and sometimes critical) means of maintaining public exposure for and interest in the Identity at a time when the individual becomes unable to generate that exposure and interest through personal efforts. Conversely, the intensive commercial use of the Identity after death in the form of "tributes" or "memorials" may generate a dramatic upturn in the value of the Identity and availability of future endorsement contracts.[49]

Marketers utilizing the Identity of a decedent would obviously not be moved by any of the above considerations, and might be thought to have a contrary interest in escaping liability for payment of post-mortem compensation for endorsement rights. However, the application of New York's law should not be sought for that purpose without a full consideration of the potential impact of New York law on the post-mortem substantial validity of the contract under the choice of law rules discussed above. Under the rules of the Restatement Second, Conflicts,[50] the parties could well be deemed to have intended, by selection of New York law, that the validity of their licenses to use a celebrity's Identity (and pay for the privilege) would terminate on the death of the individual, regardless of any ongoing trademark licenses or marketing support arrangements which might otherwise continue unabated. Neither the early termination of a contract otherwise valid at its inception nor the partial invalidation of certain terms or provisions of that contract upon the occurrence of subsequent events would require a court to abandon the application of the chosen law to preserve the validity of the contract indefinitely. This is so because the survival of the endorser for even a few days after the contract signing would presumably be legally sufficient to avoid the general conflicts of law theory that the parties should be protected from mistakes, which would render the contract a nullity.[51]

In this context, the larger issue for an endorsement client is whether the selection of New York law, with presumed knowledge of its post-mortem effect, would be tantamount to releasing the licensing entity or estate of a nonresident decedent in the event of an untimely death. While it is customary for an endorsement client's counsel to request some form of option to terminate in the event of a celebrity's untimely death so that the client can reassess the viability of the deal when the death occurs, the application of New York's restrictive law could obviate this option by making a potentially valuable long-term relationship terminable at will by either party. As noted above, this could result in a windfall for the survivors and third parties, if the circumstances of the death are sensational or the decedent otherwise develops a "cult" following after death.

Any unintended loss of valuable contractual rights by the original endorsement client in such circumstances would not be ameliorated by a legal theory that the Identity necessarily enters the public domain under New York law upon the death of its owner (which is consistent with, if not ultimately sustainable under, the statute and case law), since the mere continuation of a right to use the Identity would not restore the original benefit of a multi-state or multi-national contract. Even within New York, the rationale for the original adoption of the right of publicity in *Haelen Laboratories*[52] indicates that the continued existence of a transferable commercial right is essential to any viable action by the exclusive licensed user of a person's Identity, to prevent use by others in the absence of a direct inducement of a breach of contract by the competing user. Where, as here, the death of a party and agreement to apply New York law can be read together as a de facto termination of the term of the license and dedication of the Identity to the public domain (at least within the scope of the contract and territory of New York), it would seem that competitors would thereafter be absolutely privileged to deal with the survivors, and/or ignore all of the prior commercial rights of the parties and appropriate the Identity for use in New York without risk of liability to the original exclusive licensee.

Application of Law to Artwork and Memorabilia

Although a facial reading of the Privacy Statute indicates no clear intention on the part of the legislature to prevent the appropriation of Identity for use as a commercial object in its own right, as opposed to an appropriation for the purpose of advertising or promotion of a separate product, the case law had reached that result[53] prior to the *Stephano* decision and has not yet receded from it.[54] While there is no specific disapproval of this extension of the Privacy Statute in *Stephano*, the reasoning of the other cases on this point is not particularly supportive of the statute to the factual situations before those courts.[55] Practitioners may have reason to be concerned over the future scope of protection to be accorded under the Privacy Statute to memorabilia containing text, artwork and audiovisual materials "honoring" celebrities in the face of what appears to be a growing view of the Court of Appeals that the statutory language may somehow be pre-emptive of any implied rights in a person's Identity under New York law.[56] If the text of the Privacy Statute is, in fact, to be strictly construed in light of the specific remedies accorded by the legislature in response to the *Roberson* case, it may ultimately be difficult to sustain the lower courts' formerly liberal interpretations of the phrase "for the purposes of trade" under the Privacy Statute.

Another related issue which can seriously affect the substantive rights of the parties in a memorabilia license is the line drawn under the "law of the contract" between artistic expression protected by the First Amendment and commercial speech subject to regulation under applicable state statutes and common law of publicity and privacy in the chosen state. All states which recognize the application of these rights to publications or works of art have made an effort by statute, case law or a combination of both to limit the application of these rights so as to avoid a conflict with expression protected under the Constitution. The Supreme Court has recognized that these interests are subject to judicial balancing in the state courts.[57] The Court of Appeals has yet to draw any definitive lines in this area as it relates to artwork and text featuring the Identity of an individual, which are incorporated into an article of memorabilia for sale to the general public, and New York's lower court decisions have not been particularly helpful to this analysis.[58] If we are to judge from the deference given to the Court of Appeals in balancing First Amendment issues under the "newsworthiness" exception to the Privacy Statute in the *Stephano* and more recent *Messenger* cases (which deference appears more consistent with the Court's historical antipathy for commercial publicity rights than its love for free speech), practitioners in this area may have reasonable concerns that the commercial expectations of parties dealing in memorabilia will be given little weight if the Court reaches this issue in a future case.

It would be naïve to suggest that any of the American jurisdictions has yet found the perfect theoretical framework for balancing these competing interests, but a comparison of the law of New York to the law of California in this area as enunciated by its Supreme Court in the recent case of *Comedy III Productions, Inc. v. Gary Saderup, Inc.*[59] may be of particular interest to practitioners who engage in the licensing of memorabilia. This case involved an attempt by the licensing entity formed by the heirs of the Three Stooges to prevent the use of unauthorized illustrations of their decedents created by the artist Gary Saderup on T-shirts and art lithographs. With the considerable assistance of *amicus curiae* representing a number of parties interested in the endorsement industry, the California Supreme Court finally and squarely confronted an issue that has intrigued commentators and practitioners alike for decades—the method for balancing the rights of an artist to choose the subjects to be depicted in a creative work under the First Amendment with the rights of a celebrity to keep others from trading off the marketing value of an Identity without consent. In finding for the licensing entity representing the Three Stooges, the Supreme Court held that courts should look to the level of "transformative" creative effort of the artist and weigh the relative strength of the marketing appeal of artist and image in order to determine whether the artwork is primarily a vehicle for expression protected by the First Amendment or a commercial representation of an Identity subject to regulation under the right of publicity. Although Justice Mosk's opinion is likely to upset lawyers who represent graphic artists and spur a lively academic debate,[60] the depth of his reasoning stands in marked contrast to the limited jurisprudence of New York on this issue. Moreover, if voluntary choice of law is supposed to allow the parties to select a fully developed commercial law which meets their reasonable expectations as to the treatment of their rights,[61] California law would now have much to recommend it as the "law of the contract" in an endorsement agreement between a celebrity and any artist who seeks contractual authorization to develop memorabilia on an exclusive basis.[62]

Territorial Limitations upon New York's Statutory Rights

One of the most puzzling issues raised by the case law under the Privacy Statute is the extent to which the New York privacy right has extraterritorial application, and whether the underlying rule of decision by the New York courts is one of comity and deference to interests served by the law of other states, a court-imposed limitation of the jurisdictional reach of equitable remedies, or a substantive rule of internal law. For whatever reason, New York decisions have held that the provisions of the Privacy Statute should only be applied with respect to activities of a defendant which take place or cause injury within New York State.[63] While the penal provisions of section 50 would obviously preclude its application to acts which are outside of the jurisdiction of the state, the courts addressing this issue have apparently taken the same approach with respect to the civil remedy provisions of section 51.

Given the history and language of the Privacy Statute, and the recognition by courts that a limited territorial application of New York law would leave open the rights of a plaintiff to pursue the full measure of rights and remedies in other interested jurisdictions based on the laws of those states,[64] this limitation cannot be easily dismissed as a mere choice of law provision to be applied by New York as a forum state or a procedural limitation of its equity practice. Under the choice of law rules of the Restatement,[65] the use of New York law as the substantive law of the contract would likely incorporate this apparently substantive limitation on the rights granted under the Privacy Act. This wonderful conundrum, which, like a good law school hypothetical, appears to plumb the depths of legal reasoning in the area of conflicts, could form the basis for at least one good scholarly article in its own right. From a practitioner's standpoint, however, the "bottom line" appears to be that a New York choice of law in this context may create enough uncertainty to justify the adoption by the contracting parties of a body of law outside of New York, which does not openly invite future litigation on this issue.[66]

Absence of Implied Rights of Parties

We have assumed in this article, for purposes of clarity, that endorsement contracts are licenses of the Identity of a celebrity within the meaning of the Privacy Statute. However, a troubling aspect of the Court of Appeals' pre-emptive application of the limited statutory language is its potential effect upon a New York court's interpretation and application of particular clauses or contractual remedies under New York law, which are an integral part of the general bargain struck by the parties, but not strictly within the ambit of Privacy Statute. For example, a celebrity will often retain substantial control over the manner and form of use of the Identity made by a licensee in advertising and publicity materials as a means of preserving the perceived quality and commercial value of an endorsement, because the association of the Identity with embarrassing or poorly conceived promotions may diminish the reputation of an endorser. While these control clauses are generally phrased in terms of approval of or consent to the release of specific material, which is consistent with the concept of the Privacy Act, the underlying basis for the rights reserved does not fit so neatly into the strictures of New York law.

A particularly difficult issue for celebrities looking to license their Identities under New York law is the potential application of the "newsworthiness exception" to invalidate express limitations imposed upon a licensee's production and dissemination of publicity materials under a contract. Under normal concepts of a commercial right of publicity and the "Four Torts" of privacy identified by Professor Prosser under common law,[67] the publication by a licensee of unapproved publicity materials would, in addition to causing a breach of contract, be actionable as a separate misappropriation (if not approved but not misleading) of Identity or "false light" invasion of privacy (if the use were misleading or otherwise embarrassing to the endorser).[68] While the application of these legal concepts would obviously be limited in suits against legitimate media reporting or publication of independent works by third parties which disseminated information released by the licensee,[69] a contracting party (presumably, even a party which happened to be in the media business) would not be able to assert a "public interest" to justify exceeding the scope of the consent provided under the endorsement agreement.

In contrast, the ultimate holdings in the *Stephano* and *Messenger* cases may be read as standing for the proposition that, unless there is no conceivable nexus between the alleged violation of rights under the *Publicity Statute* and a matter of legitimate public interest, a media outlet may escape liability for invasion of privacy or publicity rights of a model hired to pose for that publication—regardless of the scope or even existence of any prior valid consent under the Privacy Statute and regardless of the damaging nature of the portrayal of the Identity to the personal reputation of the model. To use the terms of art of these cases, it is almost inconceivable that the kind of publicity release generally contemplated by an endorsement agreement would not "concern a matter of legitimate public interest," or would be merely an "advertisement in disguise," since the very purpose of these promotional tools is to provide the appearance of "hard news" in order to draw legitimate media attention to an endorsement client. The "newsworthiness exception" applied by the Court of Appeals in the *Stephano* and *Messenger* cases was developed in the context of media exploitation of innocent bystanders whose photographs appeared in embarrassing and even misleading contexts without their consent. Although the particular results in those cases were another example of the harsh treatment accorded individual privacy rights by the Court of Appeals, their application to the rights of a celebrity seemed to be limited to barring recovery for tabloid attacks of less than libelous extent. By its rulings in *Stephano* and *Messenger*, the Court left open the clear possibility that any pendent tort claims relating to bad publicity generated by an endorsement licensee using the voluntary modeling services of a celebrity can be eliminated by reference to the limited wording of the Privacy Statute and any damage to the reputation of the endorser can be immunized by the "newsworthiness exception." The substantive implications of these cases—that recovery for a breach of contract involving the services of a celebrity as a model may be limited to those tangible economic losses which can be established as flowing directly from the breach of contract—may greatly reduce the ultimate value and practical enforceability of control provisions in endorsement contracts under New York law.

"For lawyers seeking a reasonable level of certainty in their multi-state or multi-national endorsement licensing transactions, the American law of publicity and privacy can be maddeningly undeveloped and confusing in the best of jurisdictions."

Conclusion

For lawyers seeking a reasonable level of certainty in their multi-state or multi-national endorsement licensing transactions, the American law of publicity and privacy can be maddeningly undeveloped and confusing in the best of jurisdictions. It is a credit to the ingenuity of practitioners that this area of commerce has flourished in the last half-century, although my personal belief is that the practice has benefited greatly from the ability of experienced negotiators to reach tacit agreements to ignore the more vexing technicalities of the legal sources and fashion deals that make common business sense. The inherent problem of choice of law in this field is the need for practitioners, and ultimately courts, to apply conflicting local legal systems to an area of commercial activity that, to be effective in mass markets and over mass communication networks, is almost never localized in any particular state.

Although determining and harmonizing state law of publicity and privacy is a fascinating exercise for the academics in our profession and a potentially profitable one for litigators, the complications of that law are a potential trap for commercial lawyers and clients alike, and add unnecessary complications to what might otherwise be a rational and predictable interstate commerce in publicity rights. It would be entirely reasonable and helpful to the industry to have pre-emptive federal legislation to recognize commercial publicity rights and remove them from the local law ambit of the personal privacy cases, in view of (1) the need to reconcile the trademark and "quasi-trademark" character of publicity rights where a celebrity becomes identified as a marketing symbol of a product or service and thereby associated with its quality in the minds of the public, (2) the close practical association between marketing uses of Identities and marketing uses of those other intellectual property rights of trademark and copyright traditionally protected by federal law, and (3) the ongoing need to balance the individual's commercial rights to control the exploitation of Identity against the public's right to have celebrity information and images depicted in non-commercial contexts as expressions protected under the First Amendment. In the disparate and highly competitive world of celebrities and their managers and agents, it may also be difficult to develop a consensus among those most affected as to the best solutions for the inherent problems of the current system without a major litigation disaster to rally around. Ironically, it may be the skill and ingenuity of practitioners in working with existing state publicity and privacy laws that has avoided this disaster and kept this issue from getting the attention it deserves from Congress.

In the meantime, the fact that there is no "best" legal system to determine the rights of parties to an endorsement contract should not deter lawyers from doing their research and considering the business objectives and legal requirements of particular celebrity clients and transactions before negotiating a choice of law clause. As noted above, the failure to do this homework can result in a choice of law which, while facially appealing to the lawyer as a "friendly" jurisdiction, ultimately frustrates business objectives and fails to meet the requirements of the parties. In the first and last instance, counsel must understand the basic theory of rights underlying the chosen law and compare that theory against the basic legal theory reflected in the terms of the contract itself in order to assure that the chosen law will best carry out the intentions of the parties.

As noted above, New York law has been decidedly "unfriendly" to the recognition of commercial rights in a person's identity and has never provided consistent support for the full exploitation of such rights as a proprietary interest. Rather than receding from its archaic holdings on privacy rights, the Court of Appeals appears to be more determined than ever to preserve the position of New York as the only major commercial jurisdiction to reject a common law approach to these issues. Under the circumstances, demanding or acceding to New York as the chosen law in an endorsement contract may be analogized to the old Cold War problem of adopting the law of a country that does not recognize private property to govern a multi-national contract for the acquisition of a factory—the buyer would generally end up with the factory, but the legal support for that result would seldom be simple, predictable, expeditious or inexpensive for either party.

The fact that New York law is often specified and utilized successfully by the parties in endorsement contracts, which do not attempt to follow the legal theories of the Privacy Statute and case law, is not a reason for a lawyer to adopt it. These contracts would probably function as well without any choice of law clause, or without the assistance of lawyers in negotiating or drafting them at all, due to the basic commitment of the parties to meet their business objectives as expressed in the contract, without resort to legalistic analysis. A commercial lawyer's job is to protect the downside risk for the client if a business deal devolves into legal argument and litigation, and an important part of that job must be to select a legal system that works to simplify the issues and protect the business expectations of the client when problems arise and business negotiations fail. For the reasons stated above, I believe that New York law is particularly unsuited to that purpose in a celebrity endorsement contract, and suggest that New York practitioners consider adoption of more favorable legal sources as the "law of the contract," wherever sufficient contacts with another jurisdiction provide a feasible alternative.

Endnotes

1. *See* General Obligations Law § 5-1401, which permits the voluntary choice of New York law in commercial contracts for over $250,000 even if there is no traditional nexus with the state. This provision excludes any "contract, agreement or undertaking . . . for personal service" from its operation, although it presumably could be applied to an endorsement agreement which had no personal service component.
2. Section 50 is a penal statute, and provides that unauthorized use of the name or likeness of a living person without consent is a misdemeanor. Section 51, the civil remedy counterpart, provides injunctive relief and damages to a person aggrieved by an unauthorized use of such person's name, likeness or voice, including exemplary damages if the unauthorized use was knowingly made.
3. A full discussion of New York law in this area and specific contrasts with authorities in other jurisdictions is beyond the scope of this article, and not necessary to an understanding of the basic choice of law issues presented here. For those having a specific interest in the nuances of the subject, I recommend reviewing Professor McCarthy's well reasoned overview of state statutes and common law in 1 McCarthy, *The Rights of Publicity and Privacy, 2d Edition* (2002), Ch. 6. (Cited hereafter as the "*McCarthy Treatise*"). For those with a thirst for even deeper knowledge, I recommend reading any one of the number of detailed and scholarly articles on the subject which are cited in Chapter 6 of the *McCarthy Treatise* and in the McKinney's statutory annotations under the two sections of the Privacy Statute.

4. The Lanham Trademark Act, 15 U.S.C.§§ 1051, *et seq*.

5. I have used the defined term "Identity" in this article to generally refer to the name and all other identifying characteristics of an individual, which are subject to protection under any applicable statute or common law, although Professor McCarthy prefers the broader concept of "Persona." *See*, *McCarthy Treatise*, *2d Edition*, § 4.45. There are a variety of formulations used by the statutes, cases and commentators to define the concept of the personality rights of an individual which are protected by privacy and publicity law, and the operative definitions used in private contracts will often differ based upon variations in the "trademark" features of individual celebrities and individual drafting styles of their lawyers. In New York, the operative definition of "Identity" in New York under the Privacy Statute since the 1995 amendments to § 51 has been the "name, portrait, picture or voice" of a person.

6. *See*, *e.g.*, *Hanna Manufacturing Co. v. Hillerich & Bradsby Co.* 78 F.2d 763, 765-767, 101 A.L.R. 484, 489-491 (5th Cir. 1935), *cert. denied*, 296 U.S. 645, 56 S.Ct. 248, 80 L.Ed. 458 (1935). "The District Court held that 'Baseball players, like any other individuals, have a property right to their names. This property right is capable of assignment and has been assigned by certain players to the plaintiff, and plaintiff has used and advertised the right and has such right exclusively, irrespective of any trademark or unfair competition law.' We are unwilling to go so far." *Id.*, at 78 F.2d 766, 101 A.L.R. 489.

7. Although courts have been willing to apply the "unfair competition" concepts of § 43(a) of the Lanham Act, 15 U.S.C § 1125(a), to claims by celebrities alleging "implied endorsements" which are misleading to consumers in a trademark sense, the historical legal theories underlying the Lanham Act do not recognize the underlying market value of Identity in a modern culture where advertisers are willing to pay millions of dollars for the subliminal impact of product placements in films and TV shows or at media events. A good discussion of the implied endorsement cases in the Ninth Circuit and limitations on Lanham Act analysis in this area may be found in *Cairns v. Franklin Mint Co.*, 107 F. Supp. 2d 1212, 55 U.S.P.Q.2d 1711 (C.D. Cal. 2000).

8. *See Haelen Laboratories, Inc. v. Topps Chewing Gum, Inc.*, 202 F.2d 866, 868 (2nd Cir. 1953), *cert. denied*, 346 U.S. 816, 74 S.Ct. 26, 98 L.Ed. 343 (1953). *Compare* Restatement Second, Torts § 652C, *with* Restatement Third, Unfair Competition § 46.

9. 171 N.Y. 538, 64 N.E. 442 (1902).

10. Warren & Brandeis, *The Right to Privacy*, 4 Harv. L. Rev., p. 193 (1890).

11. "In not one of these cases, therefore, was it the basis of the decision that the defendant could be restrained from performing the act he was doing or threatening to do *on the ground that the feelings of the plaintiff would be thereby injured*; but, on the contrary, each decision was rested either upon the ground of breach of trust, or that the *plaintiff had a property right in the subject of litigation which the court could protect*." *Roberson, supra*, at 64 N.E. 445 (emphasis added).

12. "It would be a reproach to equitable jurisprudence if equity were powerless to extend the application of the principles of common law or of natural justice in remedying a wrong, which, in the progress of civilization, has been made possible as the result of new social or commercial conditions." *Id.*, at 64 N.E. 449 (Gray, J., dissenting).

13. *Id.*, at 64 N.E. 443.

14. *Haelen Laboratories, supra* note 8.

15. In its conception, Judge Frank's opinion is similar to Judge Gray's original dissent in *Roberson, supra,* where he stated: "I think that [the majority] view is unduly restricted, too, by a search for some property which has been invaded by defendants' acts. Property is not, necessarily, the thing itself which is owned; it is the right of the owner in relation to it. The right to be protected in one's possession of a thing or in one's privileges, belonging to him as an individual, or secured to him as a member of the commonwealth, *is property*, and as such is entitled to the protection of the law." *Id.*, at 64 N.E. 450 (emphasis added).

16. *See McCarthy Treatise*, § 6.3 and § 6.7, and chart at § 6.8.

17. 64 N.Y.2d 174, 474 N.E.2d 580, 485 N.Y.S.2d 220 (1984).

18. *Id.*, at 64 N.Y.2d 183, 485 N.Y.S.2d 224 (citations omitted).

19. "Since the 'right of publicity' is encompassed under the Civil Rights Law as an aspect of the right of privacy, which, as noted, is exclusively statutory in this State, the plaintiff cannot claim an independent common-law right of publicity." *Id* (footnote omitted).

20. *Messenger v. Gruner & Jahr Printing and Publishing*, 94 N.Y.2d 436, 727 N.E.2d 549, 706 N.Y.S.2d 52 (2000). Although this case involved a "false light" invasion of privacy claim from another model, rather than a right of publicity, the reasoning of the Court is instructive as an indication of the continuing antipathy toward recognizing any right not existing in 1902 unless expressly mandated to do so by the legislature. This almost perverse insistence upon maintaining the status quo of New York jurisprudence over a century of dramatic changes in human relationships and mass media has borne out the concern expressed by Judge Gray in his original dissent to *Roberson*, *supra*, note 12.

21. *Id.*, at 94 N.Y.2d 441, 706 N.Y.S.2d 55 (citations omitted).

22. *See*, *e.g.*, *Brinkley v. Casablancas*, 80 A.D.2d 428, 438 N.Y.S.2d 1004 (1st Dep't 1981).

23. *Supra* note 20.

24. Restatement Second, Conflict of Laws § 187(1), and Comment c: "The rule of this Subsection is a rule providing for incorporation by reference and is not a rule of choice of law." *See also* § 205, and Comments a and b.

25. *Id.*, § 187(2)(a) and (b).

26. *Id.*, § 187(2).

27. *Id.*, § 187, Comment d.

28. *Id.*, § 200.

29. *Id.*, § 200, Comment b.

30. Weintraub, *Conflict of Laws, 3d Edition* (1986), § 7.3C, pp. 374-75, "Section 187 goes too far in attempting to serve commercial convenience insofar as it suggests that the choice of law clause is the most important factor in the decision of whether or not to choose the validating rule. But this same Restatement section does not go far enough when it fails to state that exactly the same considerations that would move a court to give effect to the parties' stipulation of validating law should move the same court to choose the validating law whether the parties have done so or not." (footnote omitted).

31. *See A.S. Rampell, Inc. v. Hyster Company*, 3 N.Y.2d 369, 144 N.E.2d 371, 165 N.Y.S.2d 475 (1957); *Finucane v. Interior Construction Corp.*, 264 A.D.2d 618, 695 N.Y.S.2d 322 (1st Dep't 1999); *Eastern Artificial Insemination Cooperative, Inc. v. La Bare*, 210 A.D.2d 609, 619 N.Y.S. 2d 858 (3rd Dep't 1994); *Radioactive, J.V. v. Manson*, 153 F. Supp. 2d 462 (S.D.N.Y. 2001).

32. Restatement Second, Conflict of Laws § 187, Comment e: "On occasion, the parties may choose a law that would declare the contract invalid. In such situations, the chosen law will not be applied by reason of the parties' choice. To do so would defeat the expectations of the parties which it is the purpose of the present rule to protect. The parties can be assumed to have intended that the provisions of the contract would be binding upon them (*cf.* § 188, Comment b). If the parties have chosen a law that would invalidate the contract, it can be assumed they did so by mistake."

33. Weintraub, *supra* note 30, at 371, "The rebuttable presumption that is preferable in terms of the needs of the business community is that the contract and all its provisions are valid, not merely that the choice of law clause is valid."

34. *See A.S. Rampell, supra* note 31, at 165 N.Y.S.2d 486-87, where the common law of Oregon specified by the parties was used to sanction an alleged oral modification of the contractual termination clause, despite New York's applicable statute of frauds which would have otherwise required this modification to be in writing.

35. Restatement Second, Conflict of Laws § 187(1), and Comment c.

36. Restatement Second, Conflict of Laws § 204(a), and Comment d.

37. *Id.*

38. *See Stephano, supra* notes 17-19.

39. *Id.* at 62 N.Y.2d 183, 485 N.Y.S.2d 224, note 2.

40. 58 Misc. 2d 1, 294 N.Y.S.2d 122 (Sup. Ct., N.Y. Co. 1968), *aff'd without opinion*, 32 A.D.2d 892, 301 N.Y.S.2d 948 (1st Dep't 1969).

41. *Id.* at 294 N.Y.S.2d 129.

42. Section 540.08(1)(b) and (c). *See Southeast Bank, N.A. v. Lawrence*, 66 N.Y.2d 910, 489 N.E.2d 744, 498 N.Y.S.2d 775 (1985). I note that the Court of Appeals in *Southeast Bank* projected its own peculiar negative views on nameless "Florida courts" (citing the *Loft* case, *infra*, note 69, which does not speak to the issue) to support a restrictive interpretation of the Florida appropriation statute and deny the Personal Representative of Tennessee Williams' estate the right to enforce his publicity rights due to the absence of a formal grant of licensing rights in his lifetime.

43. 147 N.Y. 434, 42 N.E. 22 (1895).

44. *See, e.g.*, *Smith v. Long Island Jewish-Hillside Medical Center*, 118 A.D.2d 553, 499 N.Y.S.2d 167 (2d Dep't 1986); *and Antonetty v. Cuomo*, 131 Misc. 2d 1041, 502 N.Y.S.2d 902 (Sup. Ct., Bronx Co. 1986).

45. *See Frosh v. Grossett & Dunlap, Inc.*, 75 A.D.2d 768, 427 N.Y.S.2d 828 (1st Dep't 1980); *and James v. Delilah Films, Inc.*, 144 Misc. 2d 374, 544 N.Y.S.2d 447 (Sup. Ct., N.Y. Co. 1989).

46. *See Stephano, supra* note 36, making reference to the *Frosh* case.

47. Restatement Third, Unfair Competition § 46, Comment h.

48. *See* §540.08 (1)(c), which is limited to a maximum period of 40 years by subsection (4). *See also* West's Ann. Cal. Civ. Code § 3344.1 (formerly codified under § 990).

49. *Cf. Cairns* v. *Franklin Mint Co.*, 24 F. Supp. 3d 1013, 49 U.S.P.Q.2d 1396 (C.D. Cal. 1998), which details the memorabilia "feeding frenzy" surrounding the death of Princess Diana in a suit by her executors.

50. Restatement Second, Conflict of Laws §§ 187(1) and 200.

51. *Id.*, § 187, Comment e.

52. *Supra* note 8.

53. *Brinkley v. Casablancas, supra*, note 22 (pinup posters); *see also Rosemont v. Urban Systems*, 42 A.D.2d 544, 345 N.Y.S.2d 17 (1st Dep't 1973) ("Howard Hughes" board game). These cases are consistent with the broader common law rule identified in the Restatement Third, Unfair Competition § 47.

54. *Cf. Shamsky v. Garan, Inc.*, 167 Misc. 2d 149, 632 N.Y.S.2d 930 (Sup. Ct. N.Y. Co. 1995) (1969 Mets "commemorative" T-shirts); *and Simeonov v. Tiegs*, 159 Misc. 2d 54, 602 N.Y.S.2d 1014 (N.Y. City Civ. Ct. 1993) (plaster castings of a famous model's face).

55. For example, in *Brinkley, supra*, the court noted that the parties did not contest the "commercial" aspect of the poster in issue. *Rosemont, supra,* was dealing with a board game, which was more clearly identifiable as a product rather than an artistic creation or form of speech. *Garan, supra*, assumes, without discussion, that publication of a picture on a T-shirt is a commercial use. Finally, *Simeonov, supra*, assumes the possibility of application of the statute only in the context of a defense to a claim for damage to an original casting claimed to be a work of art.

56. *See Messenger, supra* note 20.

57. *Zacchini v. Scripps-Howard Broadcasting Co.*, 433 U.S. 562, 97 S.Ct. 2849, 53 L.Ed.2d 965 (1977).

58. *See* cases cited in notes 53-55, above.

59. 25 Cal. 4th 387, 21 P.2d 797, 106 Cal. Rptr. 2d 126 (2001), *cert. denied*, __ U.S. __, 122 S.Ct. 806, 151 L.Ed.2d 692 (2002).

60. *Compare Simeonov, supra* note 54, at 602 N.Y.S.2d 1018, which suggested that "[a]n artist may make a work of art that includes a recognizable likeness of a person and sell at least a limited number of copies thereof without violating Civil Rights Law sections 50 and 51," despite the fact that the "art" at issue in that case was an exact copy of Cheryl Tiegs' face made by a plaster casting process.

61. Restatement Second, Conflict of Laws § 187, Comment f, last paragraph. While *Cairns, supra* note 49 and on subsequent motion at 120 F. Supp. 2d 880 (C.D. Cal. 2000), stands for the general proposition that a party whose domicile does not support a publicity right cannot leverage its way under the California statutes by resorting to registration of post-mortem rights under the statute and filing suit against an infringer in a California forum, it does not purport to question the rights of non-California parties to a voluntary contract to have their business relationships governed by California law, subject to the public policy limitations noted in the Restatement.

62. The rationale here is similar to the historical reason for the implication of a publicity right in favor of an exclusive licensee under *Haelen Laboratories, supra,* note 8.

63. *Rosemont Enterprises, supra*, note 53; *see also Shamsky, supra* note 54.

64. *See Shamsky, supra* at 632 N.Y.S.2d 936, and the authorities cited therein; *compare* Restatement Third, Unfair Competition § 48, Comment c.

65. Restatement Second, Conflict of Laws § 187.

66. While the plain intention of the Restatement is to avoid "bouncing" choices of law in contract situations (*see,* § 187(3) and Comment h), the protective concept identified by its drafters and commentators assumes that the internal law of the referenced state would not be restricted in its substantive application to all of the transactions contemplated by the parties.

67. Prosser, *Privacy*, 48 Calif. L. Rev. 383 (1960). The *McCarthy Treatise, 2nd Edition,* §§ 1.19-1.24 contains an excellent discussion of the conflicts between Prosser's conceptual framework and modern publicity rights.

68. *See Facchina v. Mutual Benefits Corp.*, 735 So. 2d 499 (Fla. App. 4th Dist. 1999), where a male model's limited release of rights in his photographs to an insurance company did not preclude him from recovering damages (or limit damages to his economic loss under the contract) under the Florida appropriation statute or common law of "false light" privacy for a subsequent unauthorized use of his Identity to promote the company's purchase of death benefits at a discount by portraying him as an AIDS victim in solicitations directed to homosexual communities.

69. *See, e.g.*, § 540.08(3)(a), and *Loft v. Fuller*, 408 So. 2d 619 (Fla. App. 4th Dist. 1981), *review denied*, 419 So. 2d 1198 (Fla. 1982).

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Term Limits: Will the Supreme Court Do Harm?

By Alan J. Hartnick

Another important copyright case, *Eldred v. Ashcroft*, will be decided by an activist Supreme Court. The background: The conventional view is that the doctrine of fair use in copyright law provides sufficient First Amendment values, so that the First Amendment, of its own force, does not apply to the Copyright Act.[1] In a challenge **under the First Amendment** to the 1998 Sonny Bono Copyright Term Extension Act, extending the term of copyright generally for 20 years, the Court of Appeals for the District of Columbia Circuit held in *Eldred v. Ashcroft*[2] that the term of copyright is "categorically immune from challenge under the First Amendment." The court also rejected the view that the "promote [] Progress" requirement of the Copyright Clause is an independent restraint on Congress' power.

In 2001, two appellate court cases considered that the First Amendment **did** apply to copyright law. In the *Gone With the Wind—The Wind Done Gone* case, the Eleventh Circuit in *SunTrust Bank*, for the first time, rejected a copyright preliminary injunction on First Amendment grounds.[3] And in a First Amendment challenge to the new Chapter XII of the Copyright Act, the Second Circuit in *Corley* **did** apply an intermediate First Amendment standard in judging the constitutionality of the new anti-circumvention act.[4]

There could be less drastic readings of both of these appellate court cases so that the constitutional issue could have been avoided. For the *Gone With the Wind* case, a new comment defense could be added to the parody defense in fair use. It is difficult to claim that *The Wind Done Gone* is simply a parody of *Gone With the Wind*: A comment defense about racism under the rubric of fair use could explain the case. For the *Corley* anti-circumvention case, the new Chapter XII deals with copyright piracy in the earliest stages, **before** the work is copied, and therefore, **before** the normal rules of the copyright law would apply. The new Chapter XII does not concern copyright infringement of original works: It concerns circumvention and unlawful accessing of copyright protection systems—a kind of firewall.

What is the relationship between Copyright Law and the First Amendment? A very prestigious group, including a*mici* who are teachers and students of constitutional law and the First Amendment and who have studied its application to copyright, petitioned for a writ of *certiorari* in the *Eldred* case. The Supreme Court granted *certiorari* on February 19, 2002.

What are the ideas of the scholars? The balance of the articles reflect the ideas of the scholars and use in some instances their very language.

The dispute is that the D.C. Circuit failed to recognize that (1) the Copyright Clause contains its own limitation, and (2) any legislation that substantially increases the set of circumstances under which the Copyright Law prohibits expression **previously** permitted must be scrutinized under the appropriate First Amendment standard.

The arguments:

1. **The Lack of Power over the Public Domain**. Referring to article 1, section 8, clause 8, the constitutional Copyright Clause is both a grant and a *limitation*. There is no public domain clause in the Constitution. Absent the requirement that Congress "promote the Progress of Science," there would be no Copyright Clause reason to restrict Congress' power over the public domain. Yet the Supreme Court has clearly indicated that such a power is beyond Congress' Patent and Copyright Clause power.[5]

2. **The Need for Originality.** "Writings" could be original or non-original. The limitation of originality must derive from the "promote [] Progress" requirement. There is no other textual authority for this restriction.

3. Based on 1 and 2 above, **the introductory language** of the Copyright Clause constitutes a limit of congressional power over the term of copyright. Congress cannot shift the boundaries of copyright, including term extension, unless it "promote[s] Progress."

4. ***Harper & Row*[6] Does Not Apply**. *Harper & Row* concerns copyright actions sounding in trespass. In *Eldred*, the D.C. Circuit's application of *Harper & Row* was mistaken. In *Harper & Row*, the Supreme Court was asked and did **not** craft a public figure exception in the enforcement of a copyright. Because there is no First Amendment right to trespass, the enforcement of a particular copyright is internal to copyright law. There can be no First Amendment right to challenge the legal rules under which property rights are set.

5. **The First Amendment Applies.** For a statute modifying the Copyright Act itself, such as the Term Extension Act, there is no textual reason to except copyright law from ordinary First Amendment analysis. Nor is there any history to suggest that the Framers imagined copyright law to be exempt from First Amendment review in

order to determine if term extension "promote[s] Progress."

6. **The "Non-Laughable" Reasons for Term Extension.** It is impossible to create incentives by retroactive extension of the term of protection for works already created. The incentive subsisting prior to the extension was sufficient to bring them into being. As to *prospective* extension, the discounted present value of any revenue stream to be recaptured eight decades or more is insignificant. On the other hand, perhaps "harmonization" with other countries supports creativity, but the rub is that the D.C. Circuit in *Eldred* never properly considered them in light of the appropriate First Amendment standard.

7. **Beyond the Issues.** The petition for *certiorari* goes beyond the issues of the case to add: "Whether Congress is constrained by the plain language of the Copyright Clause will determine the scope of Congress' power to pass legislation to protect databases, or further to withdraw work from the public domain." Such argument, to me, is an unnecessary expansion.

The scholars then requested that the Supreme Court remand the Term Extension Act under the First Amendment standard appropriate for laws specifically aimed at non-content regulation of expression in pursuit of legitimate state interests, which requires some degree of heightened scrutiny. Notwithstanding, and to the surprise of many, the Supreme Court granted *certiorari*.[7]

The all-star professors of constitutional law who supported the petition were: Professors Lessig, Nesson, Zittrain, Neuborne, Balkin, Benkler, Rosenfeld, and Slaughter. This article cannot summarize the depth of knowledge that the scholars brought to their presentation to the Supreme Court. Sometimes, ideas require time to percolate.

One idea is a new definition of copyright. The *amici* proposed an unusual definition. Rather than state that copyright protects the author's exclusive right to the use and reproduction of his or her expression, the definition becomes:

> Copyright law . . . is a law aimed at improving the marketplace in expression, which is implemented by suppressing some expression—perhaps derivative, perhaps imitative—so as to support other expression—original and creative.

And that, from the prism of the First Amendment, is the purpose of copyright law. It is directly aimed at speech, and, for passionate believers in the First Amendment, any changes should be subject to heightened scrutiny under the First Amendment.

Why did the Supreme Court grant *certiorari*? That is hard to know. Some say that Justice Stephen G. Breyer may be the reason, based upon an article he wrote as a young law professor.[8] On the other hand, our treaty obligations under TRIPS-GATT required copyright restoration, which changed the public domain. Members of Berne had to restore copyright under Article 18 of the Berne Convention. And then the EU changed the duration from life-plus-50 years to life-plus-70 years to match German law. If we did not harmonize, U.S. authors and their assignees could be deprived of EU revenue, under the Berne rule of the shorter term of copyright protection, with the U.S. term then being the shorter one unless duration were changed. These reasons **could** justify a legitimate state interest under a heightened First Amendment analysis, but none of this was done in *Eldred*.

And so, more than "speech" was involved. We had our treaty obligations as well as the need for copyright harmonization. In the pending Supreme Court case, we shall soon see the interplay, if any, between copyright and the First Amendment.[9] The Supreme Court decision will really pit constitutional purists against pragmatists.

Endnotes

1. *Rosemont Enter. Inc. v. Random House, Inc.*, 366 F. 2d 303 (2d Cir. 1966).
2. *Eldred v. Ashcroft [Reno]*, 239 F.3d 372, 375 (D.C. Cir. 2001).
3. *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001).
4. *Universal City Studios, Inc. v. Corley*, 273 F.3d 429 (2d Cir. 2001).
5. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 149 (1989).
6. *Harper & Row Publications, Inc. v. Nation Enter.*, 471 U.S. 539 (1985).
7. Petition Docket No. 01-618, #150; *petition granted* Feb. 19, 2002.
8. *The Uneasy Case for Copyright*, 84 Harv. L. Rev. 281 (1970).
9. A parallel case, *Golan v. Ashcroft*, is proceeding in the U.S. District Court of the District of Colorado (Civil Action No. 01-B-1854) Plaintiffs complain that the Term Extension Act and copyright restoration under § 514 of the Uruguay Round Agreement Act, 108 Stat. 4976 (1994), exceeds the Constitution's bounds. Pending before the court is a motion under F.R.C.P. § 12(b)(6) that the complaint fails to state a cause of action. As in *Eldred*, the plaintiffs are represented by, among others, Professors Lessig, Zittrain and Nesson.

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After After *La Cienega*

By Eric S. Goldman

Few acts in rock and roll are as well known as The Rolling Stones. However, the Stones have now made legal history as well as music history. Due to a change enacted in 1997 to the U.S. Copyright Act, The Rolling Stones have been found to have committed copyright infringement when recording songs in 1969 and 1972. So the Stones have helped to add another chapter to one of the most confusing and convoluted topics in copyright jurisprudence: Copyright in musical compositions and sound recordings.

Background

Since the Constitution was originally ratified, U.S. legislators have struggled to balance the need of the public to further the arts and sciences against the need of artists and scientists to profit from their work. The Constitution provides, in relevant part:

> The Congress shall have Power . . . To promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries.[1]

From this humble beginning, modern copyright law was born.

Current practitioners of U.S. copyright law are frequently called upon to interpret the provisions of the two comprehensive copyright laws passed in the 20th century, the Copyright Act of 1909 and The Copyright Act of 1976.

Under the Copyright Act of 1909, publication of any form of artistic expression without registration of the copyright therein with the U.S. Copyright Office caused a loss of copyright protection; for example, published and unregistered works entered the public domain.[2] However, artistic expression, which was never published, retained protection under the common law.[3] Although "publication" was never defined in the 1909 Act, it was generally thought to involve the distribution of visually perceptible copies.[4]

Whether or not the distribution of phonograph records constituted the publication of music contained therein under the 1909 Act has been a much-discussed question:

> Whether a work was published by the public distribution of phonorecords embodying such work remains one of the most heatedly disputed issues under the 1909 Act. Many eminent members of the Copyright Bar as well as the music industry generally long maintained that public distribution of phonograph records (or phonorecords) did not constitute a publication of the works embodied therein . . . Implicit in this reasoning was the assumption that what constitutes a "copy" for the purpose of determining infringement under the statutory copyright must also constitute a "copy" for the purpose of determining whether an unpublished work has been published and thereby divested of common law protection. Yet, no logical necessity requires that the term "copy" be defined in an identical manner for these two diverse purposes.[5]

In fact, most music that was first distributed in phonograph records did not include a copyright notice, because publishers believed that distribution of phonograph records was not technically a publication of the music contained therein. The Copyright Office routinely refused to register copyrights in musical compositions based solely on distribution of phonograph records, maintaining that music could only be published by the distribution of visually perceptible copies, such as sheet music.[6] "When Congress extended Federal copyright protection to sound recordings in 1971, the law made clear that phonorecords constituted copies only of the sound recording, and not of the musical compositions on the recording."[7]

Court decisions on the issue never did yield a clear, black-line resolution.

Rosette v. Rainbo Record Mfg. Corp.[8]

In *Rosette*, the question before the Southern District of New York was whether the distribution of musical compositions on phonograph records without registration of the copyright in those compositions constituted publication so as to divest the author of copyright protection.[9]

Plaintiff Marion Rosette distributed 33 musical compositions on phonograph records. Several of those compositions were distributed prior to Rosette's registration of the copyrights therein.[10] Rosette alleged that defendant Rainbo distributed exact copies of her recordings, thus infringing her copyrights.[11]

Rosette claimed that distribution of phonograph records was not a publication, while the defendant maintained that such distribution did, in fact, constitute publication.[12] The court, noting that no court of higher jurisdiction had acted to resolve the relevant question,[13] cited several sources to support the proposition that publication required visually perceptible copies, and that distribution of phonograph records did not qualify.

> It may be noted, incidentally, that the Universal Copyright Convention (UCC) to which the United States is a party has clearly eliminated mechanical production on phonograph records as "publication". The Convention in Article VI defines publication as "the reproduction in tangible form and the general distribution to the public of copies of a work from which it can be read or otherwise visually perceived . . . And the practicing copyright bar has voiced its objection to relinquishing what they consider *stare decisis* so as to cast into the public domain thousands of works of popular and classical music, performances of which have been distributed on phonograph records without statutory copyright in reliance upon the rule of law that a distribution of phonograph records is not a publication."[14]

However, the Southern District noted that to hold that music distributed on phonorecords can be considered unpublished would be to grant a longer term of copyright protection for unregistered works under the common law than granted to registered works under federal law. As a matter of constitutional law, the states cannot be permitted to grant common law rights in excess of that provided by federal statute. The court noted that it had to make every effort to avoid this constitutional problem:[15]

> This leads to the conclusion that the use of phonograph records without compliance with the Copyright Act bars claims for infringement not because the record is a "copy" or a "publication" but because any other interpretation leads to conflict with the Federal statutory scheme. Section 2 [of the 1909 Act] would still be read as applying to unpublished works protectible at common law including unpublished musical compositions where no mechanical recordings have been made . . . On the other hand the failure to file notice of use does not bar the copyright owner forever.[16]

The court concluded that the only reasonable interpretation of the law as applied to industry practice was that the distribution of phonograph records is not a publication of the music therein, and thus distribution of phonorecords containing unregistered compositions does not place those compositions in the public domain. However, the owner of the copyrights in those compositions cannot sue for copyright infringement until such time as the relevant copyrights are registered with the U.S. Copyright Office.[17]

The court then moved on to fashion an appropriate remedy for the plaintiff Rosette. In doing so, the court also noted that the infringing conduct had ceased more than a year before the action was filed.[18] The court further noted that the 1909 Act included a statute of limitations period of three years from the date of infringement.[19] Therefore, the court limited Rosette's financial recovery to infringement, which occurred after the later of the time of the filing of her statutory copyrights and the date three years prior to the time of the filing of her claim.[20]

La Cienega Music Corp. v. ZZ Top[21]

In *La Cienega*, the Ninth Circuit faced substantially the same question as did the *Rosette* court, namely, whether the distribution of unregistered musical compositions in phonorecords constituted publication under the 1909 Act, thereby placing the compositions in the public domain. However, the Ninth Circuit expressly declined to follow *Rosette*.

Bernard Besman was the sole owner of the copyright in the musical composition "Boogie Chillen," written by Besman and blues legend John Lee Hooker. Recordings of the song were sold to the public in 1948, and copyright in the composition was registered in 1967. A second version of the composition was written in 1950, and that copyright was registered in 1970. A third version of the composition was written and recorded in 1970, and copyright therein was registered in 1992.[22]

The rock and roll group ZZ Top released a musical composition entitled "La Grange" in 1973. The composition became a signature song for the band. Hooker notified Besman in 1991 that "La Grange" was a copy of "Boogie Chillen." In 1991, Besman notified the owner of the copyright in "La Grange," Hamstein Music Company, that "La Grange" infringed the copyright in "Boogie Chillen."[23]

Both sides sought relief through the courts. At trial, the Central District of California ruled in favor of Hamstein and ZZ Top, finding that "Boogie Chillen" was in the public domain. Besman appealed to the Ninth Circuit. It should be noted that the district court expressly declined to determine whether the statute of limitations had expired,[24] and therefore the issue of the statute of limitations was specifically not before the Ninth Circuit.[25]

In reviewing whether or not distribution of phonograph records containing "Boogie Chillen" without registration of the copyright in the song placed the song in the public domain,[26] the Ninth Circuit noted that:

> [t]he majority of district courts considering this question have adopted ZZ Top's view. The only appellate court to rule on the issue, however, has favored the approach proffered by La Cienega . . . Although La Cienega argues that . . . *Rosette* [is not] the minority rule, even the same court which originally decided that case has noted "that *Rosette* is not without its critics and is not followed by a majority of district courts in other circuits.[27]

The court then went on to note that *Rosette* created an unacceptable discrepancy between common law and statutory copyright protection.

> According to the statutory scheme, an artist who composes a song, wants to sell recordings immediately, and thus copyrights the song in compliance with the 1909 Act, has 28 years of copyright protection from the time of compliance. In contrast, under *Rosette*, an artist who does not so comply can sell any number of recordings for several years, receiving common law copyright protection all the while, before copyrighting the work with the Copyright Office. From the point of compliance on, the statutory copyright owner receives 28 years of federal protection.[28]

The Ninth Circuit went on to adopt what it called the "majority rule," that the distribution of phonorecords constituted a publication and that, therefore, "Boogie Chillen" was in the public domain, as the song had been published before the copyright therein had been registered.[29]

1997 Revision to Section 303

Various music publishing organizations were galvanized to action by the Ninth Circuit's decision in *La Cienega*. The Songwriters' Guild of America, Inc. (SGA) and the National Music Publishers' Association, Inc. (NMPA) were vocal advocates against the decision, and heavily lobbied Congress to overturn it through legislation. Representing the NMPA, the company's President and Chief Executive Officer informed the House:

> For as long as *La Cienega* and decisions following it are allowed to stand, the very existence of copyright protection for American music produced before 1978 is in jeopardy. And more than one billion dollars each year in music publisher revenues is at stake. Today, American writers and music publishers are facing loss of their copyrights for having done nothing more than comply with the law as it was understood at the time.[30]

This intensive lobbying effort was highly effective. Congress included in the Copyright Term Extension Act of 1997 an amendment to section 303 of the Copyright Act of 1976, which provided that the distribution before January 1, 1978, of a phonorecord should not for any purpose constitute a publication of the musical work embodied therein.[31]

In a statement made upon the Senate's passage of the amendment to section 303, Senator Orrin Hatch noted that:

> Almost all music that was first published on recordings did not contain copyright notice, because publishers believed that it was not technically a publication. The Copyright Office also considered these musical compositions to be unpublished. The effect of *La Cienega*, however, is that virtually all music before 1978 that was first distributed to the public on recordings had no copyright protection—at least in the Ninth Circuit.
>
> By contrast, the Second Circuit in *Rosette v. Rainbo Record Manufacturing Corp., 546 F.2d 461 (2d Cir. 1975), aff'd per curiam, 546 F.2d 461 (2d Cir. 1976)* has held the opposite—that publi[c] distribution of recordings was not a publication of the music contained on them. As I have noted, *Rosette* comports with the nearly universal understanding of the music and sound recording industries and of the Copyright Office.
>
> Since the Supreme Court has denied cert in *La Cienega*, whether one has copyright in thousands of musical compositions depends on whether the case is brought in the Second or Ninth Cir-

> cuits. This situation is intolerable. Overturning the *La Cienega* decision will restore national uniformity on this important issue by confirming the wisdom of the custom and usage of the affected industries and of the Copyright Office for nearly 100 years.[32]

On November 13, 1997, President Clinton signed into law Public Law 105-80, which, *inter alia*, amended section 303 of the Copyright Act of 1976.[33] The SGA celebrated what it considered to be a significant victory, noting that the government had enacted:

> . . . a copyright technical corrections bill containing a provision that overturns the 1995 decision of the U.S. Court of Appeals for the Ninth Circuit in *La Cienega Music & Co. v. ZZ Top*. That decision held that the sale of recordings to the public constituted "publication" of the underlying musical compositions under the 1909 Copyright Act, a conclusion that has potentially disastrous consequences—hundreds of thousands of pre-1978 music works would have been thrust into the public domain since they did not have a proper copyright notice. Music users could have refused to honor license terms and pay writers their required royalties—costing American composers an estimated $1.25 billion annually in lost income.
>
> After intensive lobbying by SGA and other organizations representing writers and publishers, the Senate adopted the *La Cienega* provision on October 30, and the House followed suit on November 4. Enactment of this legislation finally removed the cloud over pre-1978 music copyrights. It was also a significant achievement for SGA, the first organization in the music industry to recognize the implications of the *La Cienega* decision and to begin the two-year effort to reverse it in Congress.[34]

Thus, Congress was making a clear choice, *Rosette* over *La Cienega*.

There is at least one item of note in the legislative history on this law. The Senate version of the amendment included the following:

> (b) DISTRIBUTION OF PHONORECORDS—The amendment made by section 4 shall not be a basis to reopen an action nor to commence a subsequent action for copyright infringement if an action in which such claim was raised was dismissed by final judgment before the date of enactment of this Act. The amendment made by section 4 shall not apply to any action pending on the date of enactment in any court in which a party, prior to the date of enactment, sought dismissal of, judgment on, or declaratory relief regarding a claim of infringement by arguing that the adverse party had no valid copyright in a musical work by virtue of the distribution of phonorecords embodying it.[35]

This provision was not included in the version of the amendment enacted into law.

ABKCO Music Inc. v. LaVere, et al.[36]

Robert Johnson recorded 29 songs during his brief career, including the songs "Stop Breakin' Down," recorded March 20, 1938 and "Love In Vain," recorded February 9, 1939. No copyright registration was filed for either song prior to its distribution in phonorecords.[37] Through an extended history, Delta Haze became the owner of Johnson's copyrights in the 1990s.

The Rolling Stones released the album *Let It Bleed* in 1969, which included a recording of an adapted version of "Love In Vain." In 1972, The Rolling Stones released an adapted version of "Stop Breakin' Down" on the album *Exile On Main Street*. Copyright registration for both songs were filed in the names of Mick Jagger and Keith Richards, members of The Rolling Stones.[38] ABKCO, a music publisher, subsequently acquired ownership of the copyrights in The Rolling Stones' versions of the songs in question.[39]

In the 1990s, Johnson's music enjoyed renewed popularity, fueled in part by the release of a two-CD box set of his recordings, including "Stop Breakin' Down" and "Love In Vain." In February 1993, demand was made by Delta Haze to ABKCO for ABKCO to cease and desist from infringing upon Johnson's copyrights in these two songs. Both Rolling Stones albums were still in distribution at that time. In response, ABKCO brought a motion in U.S. District Court for the Central District of California for a declaratory judgment that Johnson's versions of the songs were in the public domain. Delta Haze responded with a counterclaim alleging that Delta Haze, and not ABKCO, was the rightful holder of the copyrights in these songs.[40]

When the District Court held in favor of ABKCO,[41] Delta Haze brought an appeal to the U.S. Court of Appeals for the Ninth Circuit. The Ninth Circuit found the central issue of the case to be whether the amendment to section 303(b) could be applied to the unauthorized exploitation of works made prior to its enactment. ABKCO claimed that this would be retroactive enforcement of the law,[42] while Delta Haze stated that the amendment merely clarified existing law.[43]

The court stated that its decision in *La Cienega* had been incorrect, and that Congress had consciously acted to state that distribution of phonorecords had never, in and of itself, constituted publication under the 1909 Act.[44] Since the only possible impact of the amendment is on works contained in phonorecords distributed before 1978, the legislature clearly intended the amendment to have retroactive effect.[45] As noted above, an attempt to preclude application of the amendment to pending cases was specifically excluded from the law.

Applying the law to the facts at hand, the Ninth Circuit found that Delta Haze was the copyright owner of the compositions in question. The court reserved all other determinations with respect to this case to the trial court.

What is clear is that, as applied to this case, section 303(b) was not interpreted so as to preserve the status quo as its advocates claimed it would. Specifically, all or part of ABKCO's copyrights in question have been invalidated.

Mayhew v. Allsup, et al.[46]

The *Mayhew* decision presents another interesting result of the amendment of section 303. Aubrey Mayhew had attempted through two lawsuits to assert copyright in compositions that had been distributed in phonorecords under the 1909 Act without proper registration. The trial court found in both instances that Mayhew's compositions had entered the public domain. However, in both cases, the Sixth Circuit overturned the trial court because, between the decision at trial and the decision at appeals, section 303(b) was enacted.[47]

In the one reported case, Mayhew claimed title to the copyright in a song written by Hoyle Nix entitled "A Big Ball in Cow Town." Although copyright was never registered in the song, it was recorded in 1949 and again in 1958. The 1958 recording was offered for sale, placed in jukeboxes and distributed for radio airplay. Mayhew brought suit against the Allsups for the unauthorized exploitation of the composition in violation of his copyright therein.[48]

At trial, the District Court for the Middle District of Tennessee at Nashville held in favor of the Allsups, following *La Cienega* and finding the song to be in the public domain,[49] and Mayhew appealed to the Sixth Circuit. As a result of the amendment to section 303, Mayhew's fortune's changed.[50]

The Sixth Circuit reviewed the case *de novo*[51] and ruled in favor of Mayhew. The court reasoned that Congress had acted to overturn *La Cienega* in a manner which made it clear that the revised statute was to apply to pending cases, noting the language of the amendment specifically contemplated application to pre-enactment conduct.[52] Once again, it should be noted that the issue of the statute of limitations had not been brought before the court.

Again, the enactment of section 303(b) did not maintain the status quo with respect to Mayhew's copyrights. Quite the contrary, the amendment overruled previous court decisions and recognized those copyrights.

Unintended Results

Both the *ABKCO* and *Mayhew* courts left a determination of damages to the trial court. A significant question in both cases remains unanswered: Will a three-year statute of limitations be applied?

The *Rosette* recovery was constrained by the three-year statute of limitations contained in the 1909 Act.[53] The 1976 Act also includes a three-year statute of limitations, measured from the time of infringement.[54] However, it is possible to toll the running of the statute of limitations on equitable grounds.[55] Although such an occurrence is rare, it is not without precedent.[56]

In the cases discussed above, there is a strong equitable basis for tolling the statute of limitations. The amendment to section 303 clarifies the nature of activities prior to 1978. Most, if not all, actions brought after the enactment of the amendment regarding pre-1978 conduct would be time-barred if the three-year statute of limitations is applied. To hold actions for remedies for those actions to be time-barred would be to negate the intent of the provision.

The fact that a provision precluding application of the amendment to pending cases was specifically excluded from the law could be interpreted to indicate that Congress intended the amendment to be given the broadest possible interpretation. Indeed, the specific exclusion of the provision could be read as legislative support for ignoring *stare decisis* in *La Cienega*, leaving open the possibility that the plaintiff could seek relief anew.

The consequences of a successful attempt to toll the statute of limitations could be staggering. While the *Mayhew* decision does not make clear when the alleged infringement occurred, the facts of the *ABKCO* decision are clear. Delta Haze's copyrights have been continually infringed since 1969 and 1972, respectively. Actual damages could be significant, to say the least.

Conclusion

The 1997 amendment to section 303 of the Copyright Act of 1976 has failed to maintain the status quo, although it has prevented publishers from refusing to pay royalties in pre-1978 works. Quite the contrary, the amendment reversed trial decisions finding songs in the public domain.

In addition, in the event a court is persuaded to toll the running of the three-year statute of limitations on equitable grounds, the amendment may have given legislative approval for suits seeking recovery of infringements, which occurred as far back as the invention of the phonograph. Whether or not this comes to pass remains to be seen.

What is clear is that the addition of section 303(b) to the Copyright Act of 1976 has not provided a clear resolution to this long-standing issue.

Endnotes

1. U.S. Const., art. I, § 8, clause 8.
2. 17 U.S.C. § 1, *superceded*.
3. 17 U.S.C. § 2, *superceded.*
4. *Rosette v. Rainbo Record Mfg. Corp.*, 354 F. Supp. 1183, at 1190, *aff'd* 546 F.2d 461 (2nd Cir. 1976).
5. Melville B. Nimmer & David Nimmer; *Nimmer On Copyright* (2002); at 4.05[B][1], citations omitted.
6. H.R. Rep. No. 105-325, 105th Cong., 1st Sess. (1997).
7. Statement of Edward P. Murphy, President and Chief Executive Officer, the National Music Publishers Association, Inc. to the House Judiciary Committee, Subcommittee on Courts and Intellectual Property, Hearing on *La Cienega*, Copyright Term Extension and Music Licensing, June 27, 1997, Nashville, TN, http://www.house.gov/judiciary/4179.htm.
8. 354 F. Supp. 1183 (S.D.N.Y. 1973), *aff'd*, 546 F.2d 461 (2d Cir. 1976).
9. *Rosette*, 354 F. Supp at 1189.
10. *Id.* at 1185.
11. *Id.* at 1186.
12. *Id.* at 1189.
13. *Id.* at 1190.
14. *Id.* 1189.
15. *Id.* at 1192.
16. *Id.* at 1193.
17. *Id.*
18. *Id.*
19. *Id.*
20. *Id.*
21. 44 F.3d 813 (9th Cir. 1995), *as amended*, 53 F.3d 950 (9th Cir. 1995), *cert. denied*, 516 U.S. 927 (1995).
22. *La Cienega Music Co. v. ZZ Top, et al.,* 53 F.3d 950, at 952, *cert. denied*, 516 U.S. 927 (1995).
23. *Id.* at 952.
24. *Id.*
25. *Id.*
26. *Id.* at 953.
27. *Id.*, citations omitted.
28. *Id.* at 953.
29. *Id.* at 953-54.
30. Murphy, *supra.*
31. Pub. L. No. 105-80, 111 Stat. 1529, 1534.
32. Statement of Senator Orrin Hatch, Oct. 28, 1997, Cong. Rec. S11301-2.
33. Copyright Office NewsNet, Issue 5, Feb. 11, 1998.
34. The Songwriters' Guild of America—Legislative Update, http://www.songwriters.org/legislative2.htm.
35. S. 505, 105th Cong., 1st Sess., introduced to the Senate Mar. 20, 1997.
36. 217 F.3d 684 (9th Cir. 2000), *cert. denied*, 121 S.Ct. 655 (2000).
37. *ABKCO Music, Inc. v. LaVere, et al*, 217 F.3d 684, at 686, *cert. denied*, 121 S.Ct. 655 (2000).
38. *Id.* at 686.
39. *Id.* at 685.
40. *Id.* at 686.
41. *Id.* 686.
42. *Id.* at 687-8.
43. *Id.* at 689.
44. *Id.* at 691.
45. *Id.*
46. 166 F.3d 821 (6th Cir. 1999).
47. *Mayhew v. Allsup*, 166 F.3d 821 (6th Cir. 1999); *Mayhew v. I.M.G.I.,* 6 Fed. Appx. 227, 2001 WL 223848 (6th Cir. 2001) (unpublished decision).
48. *Mayhew v. Allsup*, 166 F.3d at 822.
49. *Id.* at 823.
50. *Id.*
51. *Id.* at 822.
52. *Id.* at 824.
53. *Rosette*, *supra* at 1194.
54. 17 U.S.C. 507(b).
55. Nimmer, *supra* at section 12.05[B].
56. *Taylor v. Meirick*, 712 F.2d 1112 (7th Cir. 1983).

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It Is Necessary to Update the New York State Theatrical Financing Law

By James H. Ellis

Everyone who lives in and around New York City knows that the cost of going to the theater has risen dramatically over the last several years. Tickets to Broadway musicals are now at the $100 level and the cost of tickets to non-musicals is in the $75 range. According to *Playbill*, the top price for a Broadway show in 1965-66 was less than $15. In the 1977-78 theater season, the top price was $14.66, an increase of 88 percent, or slightly lower than the increase in the inflation rate during the same 11-year period. That is quite a difference!

We also know that in addition to ticket prices, all of the costs of producing theater in New York have skyrocketed during this period. It is more than the theater rentals, the salaries of everyone involved, from the stagehands to the stars, and everyone working in and around the show. Now that there are fewer than a handful of daily newspapers in New York City, the cost of advertising in the papers has skyrocketed as well.

Yet ever since the Theatrical Syndication Financing Rules authorized by the Arts and Cultural Affairs Laws of New York were adopted in 1983, there has been no change in the amount of money or number of investors that are contained in two sections of the Rules. This article will specifically address the changes necessary to bring these sections up-to-date and in line with similar federal securities law provisions.

Background

So that one may better understand why these provisions must be updated, it is necessary to first understand how the provisions in question relate to the federal securities laws.

Most public offerings of securities normally fall under the Securities Act of 1933, which requires that all public distributions of securities must be registered with the Securities and Exchange Commission. There are, however, several exceptions to that requirement. One is an "intra-state" offering exemption, where the securities can be offered for sale only to residents of a particular state. The other is the "private offering" exemption, where, if certain requirements are met, the securities are not considered part of a public distribution. These occur when there is no public distribution of the securities and when the securities can only be offered to a limited number of people who are financially able and knowledgeable, and who have the ability to properly assess the risks of loss or gain before making the investment being offered.

New York's Theatrical Syndication Financing Rules are administered by the Attorney General's Department of Law. These rules contain a blanket requirement similar to the federal laws, which require that public offerings of securities must be registered with the proper authorities. The requisite disclosure material must be filed with the Department of Law, unless a specific exemption applies. One such exemption is that if a theatrical offering is limited to no more than $500,000, one can raise the money by using an investment agreement that spells out a great deal of information about the offering, without the necessity of preparing a more detailed statutory prospectus. I consider this similar to the federal intra-state offering exemption, even though the securities can be sold to individuals in other states under the blue-sky provisions of those states. Today, this New York exemption is used primarily in off-Broadway or off-off-Broadway show offerings, since it is impossible to produce a Broadway show for this requisite amount of money. Since the costs of producing a show have increased dramatically over the past several years, the $500,000 figure limitation in this exemption is now grossly inadequate, even for most off-Broadway shows.

The second exemption falls under federal law and is the private offering exemption, which is similar in some respects to what is usually referred to as the "waiver exemption" under the New York State law. It is part of the Arts and Cultural Affairs law in relation to the applicability of Theatrical Syndication Financing provisions. It provides that the filing requirements of offering literature shall not be applicable if the offering is made to fewer than 36 persons, where an express waiver in writing to the filing and offering of circular requirements of subdivision 3 of section 23.03 of the Arts and Cultural Affairs law (as amended by chapter 517 of the laws of 1988) is filed with the Department of Law on behalf of each investor. As a matter of course, most producers also require that the investors provide them with information pertaining to the investors' net worth and annual earnings.

Both of these state and federal laws were adopted to protect the small investor who may not have the sophisticated knowledge of a more substantial and experienced one. The federal law goes even further to protect the small investor, by including another provision that the New York State law does not presently contain. In addition to a limitation on the number of investors or offerees, the federal law in Regulation D permits an unlimited number of "accredited investors" to take part in the offering, over and above the limited number of other persons or entities specified in the Rule. An accredited investor, if an individual, is someone who has a net worth of $1 million or more, or is someone who, during the past two years, has had an annual income of $200,000 or more, or with his or her spouse, had an annual income of $300,000 or more, and expects to earn a similar minimum amount of income in the current or coming year.

New York law does not presently have an accredited investor provision, and the potential number of investors who may invest under the waiver provision exception is severely limited. Otherwise, with Broadway budgets reportedly reaching as much as $10 million or more, potential investors are limited to theater owners, major corporations and a few very rich individuals. The public, whose welfare these laws were designed to protect, is effectively made ineligible to participate in these offerings because of the limitations of the present New York law.

What Should Be Done About These Shortcomings

Since 1983, federal securities laws have been made much more flexible with newer, less stringent requirements for offerings of up to $1 million. The New York legislature should also make an effort to bring subdivision 3 of section 23.03 of the Arts and Cultural Affairs law up-to-date by changing the $500,000 limitation to theatrical offerings to $1 million. The reasons to do so are extensive, for in addition to recognizing the tremendous increase in costs since the legislation was originally adopted, today, more than ever, the change is necessary for the protection of investors. The budget of every show includes two special lines of expense; one is a line for advertising and the other is reserves. If the show receives bad or lukewarm reviews, but the audience response is positive, the only way to overcome the negative effects of the reviews until the show gets "legs" is to increase advertising expenditures and use funds from the reserve account to keep the show playing until income from ticket sales increases. If the original budget is limited to the present $500,000 requirement, the figures plugged into the budget for advertising and reserves may be inadequate to provide for this contingency. If that is the case, the show will be forced to close prematurely and the investors will lose all of their money.

It has been my belief that, due to the above reason, the figures plugged into the budgets of most off-Broadway shows are inadequate. In fact, I believe that the present New York Rules encourage premature closings, because they do not recognize how much it really costs to produce a show in the current environment. In one production with which I was involved, the minimum budget for an off-Broadway run was $650,000, necessitating that the offering be made under the waiver provision of New York law or Regulation D under the federal securities laws. As mentioned earlier, Regulation D provides for a greater number of investors than does New York law, because of the "accredited investor" provision.

The way to overcome this inadequacy in the New York law is to add a definition of the term "accredited investor" to the Theatrical Syndication Financing Rules and to amend subdivision 3(c) of section 23.03 of the Arts and Cultural Affairs laws to add an unlimited number of accredited investors to the fewer than 36 offerees allowed in the present version.

The Rest of the Story

When I brought these inadequacies in the New York laws to the attention of my Assemblywoman from Westchester County, she immediately had the matter studied by her staff. In the spring of 2001, she introduced a bill in the Assembly to raise the $500,000 to $1 million and add an accredited investors provision to the waiver provision. The bill was passed by the Assembly. Unfortunately, we were not successful in finding a sponsor for the bill in the Senate.

This year, we are much more optimistic. We believe that similar bills will be introduced in both the Assembly and the Senate.

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Parody as Fair Use II: The Wind Done Got Away with It

By Jay Flemma

This is Part Two of a two-part article. Part One, originally published in Vol. 12 No. 3 Winter 2001 issue of this Journal, *discussed parody cases and the fair use defense up to and including* Campbell v. Acuff-Rose.[1] *Part Two discusses* The Wind Done Gone *decision and issues therein which are ripe for review by the Supreme Court.*[2] *Major portions of this article were delivered during Jay Flemma's lecture at the EASL seminar on parody at the Penn Club in New York City on February 19, 2002, which also featured presentations by Daniel C. Marotta, Robert W. Clarida, Jay Kogan and Michael Einhorn, Ph.D.*

Introduction

Where the U.S. Constitution mandates that there shall be no law abridging freedom of speech, the Eleventh Circuit, in its recent decision in *SunTrust v. Houghton Mifflin,* emphatically takes the statute at its literal word.[3] It is unquestionable that the First Amendment is sacred as the source and guardian of intellectual and political thought in the U.S. Nevertheless, pragmatism dictates that the First Amendment is not and was never meant to be an all-encompassing and one-dimensional prohibition. While the First Amendment preserves Americans' right to free expression, it is augmented and strengthened by reasonable laws that are perfectly logical and necessary limitations designed to protect free speech from abuse. Since the time of the Founding Fathers, the laws of copyright, trademark, defamation, obscenity and privacy, among others, have been exceptions to the right of free speech. Without reasonable checks and balances, free speech would be sullied by incitement to crime, sedition, vitriolic and unchecked racism, defamation and theft of intellectual property. As it leads to chaos and uncertainty, freedom without order is just as undesirable as order without freedom.

Moreover, despite a small yet vocal minority perception that winds of change may be swirling around copyright law, and despite the Eleventh Circuit's decision in *SunTrust*, no wind will be blowing away the foundational tenets any time soon. For 225 years, the Constitution's protection for "authors" and their "writings" has fairly balanced the limited monopoly afforded to authors with the public's right to the dissemination of ideas. It has consistently adapted to encompass wonders never envisioned by the Founding Fathers, a nifty piece of legal legerdemain.[4]

The fair use defense is equally versatile, equitably balancing the competing copyright interests in both technological innovations and creative intellectual expression. Recently, fair use and free speech merged in the hottest legal debates of the last decade and vaulted to the forefront of not just legal, business or entertainment news, but to the front page of virtually every nationwide publication in the firestorm debates over on-line music file-sharing[5] and DVD piracy.[6] The intense media scrutiny of these cases was surpassed only by the far-echoing effect of the decisions, effects that resonated throughout the legal and entertainment industries and affected every purchaser of consumable music or computer hardware.

In the *Napster, MP3.com* and *DVD* cases, free speech and fair use were soundly rejected as defenses in all three instances. Technology may hurtle us all into the 21st century, but courts can still rely on tried-and-true legal standards that are decades, even centuries old. The courts strongly support a middle-of-the-road policy, which blends protecting consumer rights to have access to content against the copyright owner's right to be protected from a "wild, wild west" style of free transfer and widespread perfect copying and distribution.

The Eleventh Circuit's strained analysis of the First Amendment in *SunTrust* also promotes confusion. Indeed, the ink was barely dry on its decision when commentators began calling it "circuitous," "scholastic" and "subjective."[7] These commentators were kind. Other, more irreverent pundits quietly observe that the Eleventh Circuit relied on ellipses, footnotes, dicta and arcane British law to determine whether to protect or divest the intellectual property rights of *Gone With The Wind*. Both portrayals are accurate and the holding is indeed unique in intellectual property jurisprudence. Essentially, since Judge Birch believed that because the new work, *The Wind Done Gone*, was a transformative parody, it was presumptively and, in effect, automatically a fair use, because such uses are free speech and must be protected pursuant to the First Amendment, no matter how much protected material was taken from the original, and no matter what the effect upon the market value for the original.

To the contrary, richly intricate issues such as fair use and its interplay with free speech do not lend themselves to such bright-line rules or presumptions. Instead, they are equitable rules of reason requiring courts to make fair public policy judgments on a use-by-use basis. All four statutory factors and other equitable factors such as good faith are important in the individual analysis. Just as *Gone With The Wind* is one of literature's richest, most complex works, so too are the legal issues in *The Wind Done Gone* case equally rich and complex. Such a close factual scenario and intricate legal argument belies simplicity.

Moreover, just like the appellants in the DVD case, the Eleventh Circuit asserted that fair use is rooted in and required by both the Copyright Clause and the First Amendment. It that case, it called such a rule an "extravagant claim. "[8] Instead, the Supreme Court has twice held that "The First Amendment's protections are already embodied in the Copyright Act's distinction between copyrightable expression and uncopyrightable ideas . . ."[9] While courts have recognized that the First Amendment provides no entitlement to use copyrighted material beyond that accorded by the fair use defense, until *SunTrust*, courts had never ruled that the Constitution guarantees any particular formulation or minimum availability of the fair use defense.[10] As Judge Newman wrote in the DVD case, "the Supreme Court has never held that fair use is constitutionally required, although some isolated statements in its opinions might be enlisted for such a requirement."[11] The Eleventh Circuit's decision in *SunTrust* is a patchwork of such isolated statements.

The Dispute

Gone With The Wind has reportedly sold more copies worldwide than any other book except the Bible.[12] Its renown and reverence cannot be overstated.

The copyrights for *Gone With the Wind* have been rigorously policed and licensed since the book's publication. The plaintiff, SunTrust, a trustee of the Mitchell Trust, holds and actively manages the copyrights in *Gone With The Wind*, authorizing a wide variety of both derivative works and commercial items. SunTrust recently entered into a contract authorizing a sequel to *Gone With The Wind*.

In *The Wind Done Gone,* first-time author Alice Randall rewrote *Gone With The Wind* from the point of view of a new character, a mulatto half-sister of Scarlett named Cynara, who was once a slave. Randall changed *Gone With The Wind*'s ending so that her new character steals the dashing hero Rhett from Scarlett, absconds with Scarlett's inheritance and later abandons Rhett for a U.S. congressman in pursuit of a life of caviar and champagne. The result is a disjointed, stream-of-consciousness mélange of three main motifs: a touching mother-daughter gothic tragedy; allegorical Greek mythological references; and a spiteful, pulp fiction kiss-and-tell-all, robust with graphic sexual encounters and language. In retelling the story her way, Randall appropriated no fewer than 15 characters, plots, major scenes, character traits and character interrelationships from *Gone With The Wind*. She also copied numerous verbatim dialogs and descriptions.

After discovering similarities between the books, SunTrust asked Houghton-Mifflin, *The Wind Done Gone*'s publisher, to refrain from publishing the book.[13] Houghton-Mifflin refused. SunTrust then sued for copyright infringement, trademark infringement and deceptive trade practices, winning a temporary restraining order and preliminary injunction at the district court level.[14] The lower court held that *The Wind Done Gone* copied far more than unprotected scenes, but used 15 identical fictional characters, incorporating their physical attributes, mannerisms and distinct features, as well as the relationships among those characters. Further, while some characters' names were transparently changed (for example, Tara becomes Tata), *The Wind Done Gone* copied, often in wholesale, descriptions, histories and places. The lower court found that simply viewing the original story with a minor plot change through the eyes of a different character was not enough transformative value to overcome the wholesale taking. The court held that:

> It is largely an encapsulation of *Gone With the Wind* that exploits its copyrighted characters, storylines and settings as the palette for a new story. The issue, however, is that she does not simply add these historical facts to a new story but, rather, reintroduces these historical elements to an existing story, *Gone With the Wind*, and then retells that story with the same characters, plot and scenes, from the perspective of a person, Cynara, who could appreciate these historical elements. Then, having retold the story of *Gone With the Wind* by repeating famous scenes and liberal use of plot summaries, the author takes Cynara on new adventures with the older works' characters, all of which seems to fit well within the definition of a sequel—"a literary work continuing the course of a narrative begun in a preceding one" . . . takes fifteen main characters, more fully explains what happen in the previous work, and then tells what happens to them thereafter—a sequel.[15]

The district court's injunction barring publication of *The Wind Done Gone* produced an extraordinary reaction. The Eleventh Circuit granted an emergency appeal, an expedited briefing schedule and an immediate hearing. The briefing schedule was accelerated to such an extent that the litigants at one point had one hour to prepare a brief and a half-hour to prepare a reply. Mere days after the lower court's injunction, the Eleventh Circuit heard oral argument. Immediately upon conclusion of oral argument, the Eleventh Circuit reversed the injunction from the bench, claiming that it had been a prior restraint on free speech. Randall was free to publish her book.

Transformative Value—Toward a Fairly Useful Standard

Free speech and fair use unite at an intersection, which Judge Laval christened as "transformative value." Transformative value is the amount of change, both quantitative and qualitative, infused into intellectual property created and owned by another in order to produce a new work. Judge Laval's transformative value theory has become the most important touchstone in analyzing fair use. Nevertheless, despite the doctrine being embraced universally, there is confusion as to how to properly analyze transformative value in the fair use analysis. Some call transformative value a "non-statutory fifth factor,"[16] while others have interpreted it as a floating factor, one to be applied to several of the statutory factors.

A parody, a work that references and ridicules an earlier work using the earlier work's most recognizable elements,[17] is the quintessential example of transformative value. Parodies provides social commentary, humor, criticism or any combination of these virtues. However, the same elements borrowed from the original are also usually the elements most commercially valuable to the earlier work. Courts therefore are careful to respect and protect these viable economic commodities. Therefore, a true parody is likely, but not always to be afforded protection, even despite a substantial taking from the original, or despite the fact that the new work is being exploited for commercial gain. As a common theme, parody decisions appear to favor protection of (1) transformative value or an equivalent social benefit through commentary; (2) situations of minimal market harm to an original work; (3) a claim that the new work was intended to be a parody which existed pre-dispute; and (4) good faith and fair dealing. Ordinarily, the more transformative the new work is, the less significant the other statutory fair use factors will be.[18]

Ordinarily, however, does not mean always. Usually transformative value and the third factor of the statutory fair use test, the amount and substantiality of the taking, are mutually exclusive. Intuitively, the greater the taking from the original, the less the transformative value and vice versa. However, in certain rare circumstances, a great amount of transformative value may result from extensive, possibly greater taking from the original work. Justice Souter even recognized this subtle but important dichotomy in 1994 when the U.S. Supreme Court decided *Campbell v. Acuff-Rose*.

Campbell v. Acuff-Rose

Where Laval's transformative value analysis is the touchstone for recent legal analysis of fair use, *Campbell* became the Rosetta Stone through applying the doctrine. Just as the Rosetta Stone translates ancient Egyptian hieroglyphics into ancient Greek, so too does *Campbell* analyze the statutory fair use factors with Laval's transformative value theory.[19] In *Campbell*, rap star Luther Campbell penned a rap parody version of the 60s classic hit "Oh, Pretty Woman" by Roy Orbison. While the district court found Campbell's use a fair use under the statutory test, the Sixth Circuit Court of Appeals gave the first factor, the nature of the new work, presumptive weight. Despite finding that Luther Campbell not only claimed that the work was a parody from inception and that the new work clearly transformed the original song, the Sixth Circuit said that the new song's commercial nature was presumptively unfair.

The Supreme Court disagreed and remanded the case to the district court for fact-finding on whether Campbell's use of the original's bass line and lyrics was too substantial, and for testimony regarding whether Campbell had usurped a derivative market for the original song. The Court did find that there was enough parodic character reasonably perceivable in the new song that it was rightfully a parody. The Court also held that there was a significant amount of transformative value in creating the parody. Nevertheless, an analysis of the market harm and amount and substantiality of the taking could outweigh the amount of transformative value.

Two conclusions result from this decision. First, transformative value alone is not dispositive. Second, no single factor is presumptive. Indeed, by remanding *Campbell* to the district court, the Supreme Court impliedly countenanced scenarios where great amounts of transformative value could be outweighed by the four statutory factors.

The Wind Done Gone addressed the identical legal and factual issues as *Campbell*. Indeed, the parallels between the cases were eerie. Like *Campbell*, not only did *The Wind Done Gone* contain a significant amount of vulgarity, but the vulgarity was the message. Each case featured a new work that borrowed significantly more than enough to conjure up the original. Instead, each work was not merely a sequel, but was essentially a rewrite or "outtake" of the original—an outtake written without permission. Therefore, while each had transformative value, there was also a substantial amount borrowed from the original, both qualitatively and quantitatively.

There are similarities regarding the other statutory factors as well. Under the first of the four statutory factors, the purpose and character of the use, both works are a hybrid of a parody and a satire because both comment not only on the original work, but also on class and race issues. Under the second factor, both targeted a commercially exploited piece. Finally, both clearly usurped markets from the original. In *Campbell*, Two Live Crew's rap parody invaded and usurped the rap market for the original. Similarly, *The Wind Done Gone* has the potential for wild popularity as a choice for college reading lists in African-American Studies curricula. The book could be used in either a history class, literature class or even in another course focusing on racial issues. These are markets in which it could serve as a substitute for *Gone With The Wind*. Further, *The Wind Done Gone* could also serve as a substitute for *Gone With The Wind* in the entire African-American demographic.

Most importantly, both cases addressed the same central issue—to what extent will transformative value be permitted to outweigh the amount and substantiality of the taking and an invasion of derivative markets—an issue that the Supreme Court remanded for a fact-finding. The case was, like *Campbell*, an extremely close one, which needed its ultimate determination at a fact-finding. Both parties had strong arguments in support of their positions regarding an injunction. As a final similarity, just as the Sixth Circuit erred because it gave one statutory factor presumptive weight over the other factors, rather than performing a balancing test of the equities and policy arguments, so too did the Eleventh Circuit. The latter made the identical reversible error by finding that the transformative value of *The Wind Done Gone* gave rise to a presumption of fair use, a presumption which, to the Eleventh Circuit, outweighed any analysis of the statutory fair use factors.

The Eleventh Circuit Decision

The test the Eleventh Circuit propounded and the analysis that it employs is one that stands as an anomaly with all other reported decisions. It ignores the clear instructions of the Supreme Court in *Campbell*, which remanded for a trial on the issues of market usurpation and amount and substantiality of the taking. Had the Eleventh Circuit merely interpreted the four statutory factors and other equities in favor of the defendants within the framework of analysis propounded in *Campbell*, there would be no debate. In short, Judge Birch faced the same issue, but ignored everything about *Campbell* because of his differing view of the role of free speech in fair use analyses.

The court's umbrage with the established body of law is affirmed at the outset of the decision. Judge Birch writes, "I believe that fair use should be considered an affirmative *right* under the 1976 Act, rather than merely an affirmative defense as is defined in the Act as a use that is not a violation of copyright."[20] To support his position, Judge Birch cryptically expounds for several paragraphs the role of England's Statute of Anne as a source of American copyright law.[21] He then states that the copyright clause and the First Amendment are intuitively in conflict. "While the First Amendment disallows that which abridge the freedom of speech, the copyright clause calls specifically for such a law." Judge Birch justifies this by stating that he believes fair use to be a guarantor of access for First Amendment purposes.[22]

Next, the court seems almost reluctant or disappointed to follow Supreme Court precedent, remarking that:

> However, fair use is commonly referred to as an affirmative defense and, as we are bound by Supreme Court precedent, we will apply it as such . . . Nevertheless the fact that the fair use right must be procedurally asserted as an affirmative defense does not detract from its constitutional significance as a guarantor to access and use for First Amendment purposes.[23]

Yet, when the court performs its analysis, it is clear that the burden of proof regarding fair use has effectively shifted from the defendant to the plaintiff.

The court finds authority for overturning the lower court's injunction *in dicta* buried in a footnote from *Campbell*:

> While injunctive relief may be particularly appropriate in cases involving simple copying or "piracy" of a copyrighted work, the Supreme Court has cautioned that such relief may not be consistent with the goals of copyright law in cases in which the alleged infringer of the copyright has a colorable defense.[24]

This is exactly the sort of patchwork adaptation of isolated dicta from older Supreme Court decisions that the *DVD* court warned about and denounced.[25]

Further, the Eleventh Circuit has instead applied its own fair use right test to determine the appropriateness of the injunction, since it has already determined in its mind that the First Amendment "guarantee of access" insulates *The Wind Done Gone* from any colorable claim of "piracy" by the plaintiff.[26] The court then analyzes each statutory factor not against each other, but against the First Amendment's guarantee of free speech. For example, in analyzing the first factor, the court fails to analyze whether the purpose was transformative or merely for a profit. It gratuitously states that the for-profit status is strongly overshadowed and outweighed in view of its highly transformative views of *Gone With The Wind*'s copyrighted elements. There was little discussion about Randall's attempt to ride the crest of public exposition due to the imminent release of a sequel to *Gone With The Wind.* There was also no inference drawn as to the financial benefit Randall might correspondingly enjoy. Instead, the court overturned the injunction by finding that any copying in any amount from the original and any invasion of any derivative market is outweighed by the First Amendment's protection against censorship. It ruled that *The Wind Done Gone* could be published the same day.

The copyright clause does not abridge the freedom of speech, but instead recognizes the economic value of protecting expressions that are valuable and reasonably protects abuses of freedom of speech. Such protections have been recognized and encouraged for centuries. Copyrightable expression has a companion characterization to free speech, as it is also an economic commodity. The tort of copyright infringement is an economic wrong.

On the other hand, censorship was designed to protect against a different but equally valuable concern, the underlying right to speak or to make certain speech. Censorship is inapposite to the economic protection afforded to an author who attempts to benefit from his works of authorship as his "speech." This must also be protected as a commodity. The Copyright Act and the First Amendment copyright clause seek to protect these dual public policies. Judge Birch's interpretation unfairly erases that protection. When speech borrows too greatly from an original work, it risks losing the protection of freedom of speech and, in becoming merely a re-expression of someone else's speech, is tortious copyright infringement. Transformed speech is free. Borrowed speech is not free, but an economic commodity of the owner.

Further, under Judge Birch's "affirmative right" analysis, a copyright owner, who has already shown a *prima facie* case of infringement, must also affirmatively disprove that the fair use defense is applicable to the defendant's case.[27] Further, this position does not promote the benefits of copyright that are required to be afforded to the owners of copyrighted works. It unfairly robs them of one of their statutorily required rights and their bundle of rights, the rights to make derivative works. Even the Eleventh Circuit acknowledges that *The Wind Done Gone*'s success as a pure work of fiction depends heavily on copyrighted elements appropriated from *Gone With The Wind* to carry its own plot forward.[28] Despite the new product being squarely within the confines of the definition of a derivative work, an author's plots and characters are suddenly free agents.

It has always been the law that a parody must be able to "conjure up" enough of the original to make the object of the parody recognizable, but how much more the parodist may use has been the subject of much debate over the years. SunTrust argued that *The Wind Done Gone* exceeded the bounds in using certain minor details and interactions "that arguably are not essential to the parodic purpose of the work."[29] *Campbell* mandates inquiry into "what else the parodist did besides go to the heart of the original.[30]" *The Wind Done Gone* took not only the heart, but the skin, bones and central nervous system when it took not only characters, but plot, setting, character interrelationships, chronology and verbatim dialog. The plantation not only looked like Tara, it smelled like Tara, tasted like Tara, felt like Tara and sounded like Tara. Indeed, it did not only "conjure up" the image of Tara, it was Tara, merely repackaged to appeal to a specific derivative market. It is one thing to write a parody of a story. It is altogether different to rewrite the entire story.

The Eleventh Circuit's holding in *The Wind Done Gone* flatly ignores all of the Supreme Court's guidelines for analyzing parody cases in *Campbell*. It places too much weight on transformative value and essentially ignores the other factors, including the usurpation of derivative markets and a significant taking of protected material from the original. As the Supreme Court warns in *Campbell*, no one factor is determinative.

Parody Practice Issues for the 21st Century

New Remedies

If an infringing work is not a fair use, we usually "enjoin it out of existence." If it is a fair use, "the work gets published and the copyright owner gets to pay the attorney's fees." However brilliantly nuanced the fair use doctrine is, "all it can do is choose between these two blunt responses."[31]

As an example, in *Dr. Seuss' Enterprises v. Penguin Books,*[32] the defendant published an illustrated book called *The Cat NOT In the Hat,* which reenacted the events of the O.J. Simpson murder trial in a verbal and graphic style identical to the plaintiff's well-known children's book *The Cat in the Hat.* Despite obviously and substantially transforming *The Cat in the Hat,* the Northern District of California held that the work was not a parody since the defendant could show no particular need to use Dr. Seuss to make its point and, therefore, did not sufficiently target Dr. Seuss so as to constitute a parody.[33] Moreover, despite the cover of the book featuring the caption "A Parody by Dr. Juice," the author's claim of parody was dismissed as a post-hoc characterization developed solely as a legal defense.[34] The book was enjoined from publication because the authors liberally borrowed Seussian pentameter and illustrations and merely changed the words to ridicule the O.J. trial to a greater degree than they did any passing commentary on Dr. Seuss.[35]

The confusion regarding the role of transformative value and free speech has resulted in two disparate decisions in *Dr. Seuss* and *The Wind Done Gone*. In both cases, each book is essentially a rewrite of the original with one changing the ending, the other changing the subject matter. Both books take substantial portions, both qualitatively and quantitatively, from their respective originals. Both were written for commercial gain. Both unquestionably utterly usurped derivative markets. Most importantly, both were only commercially viable because of the goodwill of their respective preceding works. However neither book offers wholesale commentary or ridicule on the respective originals. Therefore regardless of the authors' parodic intent being readily perceivable, the parodic character is absent. Although both books have transformative value, if either passes muster under the fair use test, it would do so marginally. The result that one book escaped unscathed, while the other was enjoined, is inequitable. The Supreme Court presently has an opportunity to remedy the unfairness inherent in an "enjoin or publish for free" dichotomy by recognizing the dual nature of some works as part parody, part satire and authorizing either monetary damages equal to a licensing fee for copyright infringement or by recognizing trademark rights in the characters, scenarios and other goodwill of the original works and imposing damages accordingly.

New Fair Uses—Licensed Parodies and News Parodies

The world of intellectual property has changed dramatically since 1994. Since *Campbell* was decided, the late 90s and early 21st century have seen the development of two new uses for parody—licensed parodies for fictional works and characters and news parodies.

Although parodies may not have been freely licensed 10 years ago, licensed parody uses of fictional works and characters may begin to blossom as a by-product of the recent entertainment industry trends towards globalization and consolidation. As an example of such a new use, AOL/Time-Warner's purchase of Hanna-Barbara cartoons and the Cartoon Network has spawned several wildly popular breakout cartoon parody programs. One such show is "Space Ghost Coast to Coast," a spoof of a super-hero cartoon almost 20-years old called "Space Ghost." On the show, the super-hero Space Ghost has retired from catching intergalactic criminals and has instead started his own talk show. The villains from the show now serve as his technical advisor and musical director, and direct insults at their scatter-brained and absent-minded boss. The success of the show resulted in the launch of a wide variety of related "Space Ghost Coast to Coast" merchandise, such as CDs and DVDs of the show, action figures, mouse pads and games. Other programs lampoon super-heroes whose rights are owned by subsidiary companies acquired in mergers. While there may not be an actual licensing agreement between the parties noted above, the economic benefit to both parties is significant. Old characters have been refreshed with new shows and related merchandise. Content providers will begin to freely explore other such avenues with networks in an attempt to ride the swelling trend of "retro" programming and merchandise.

In another novel use, ESPN has begun to air parody segments to report sporting events on its daily sports news program "Sports Center." As an example, when *Star Wars Episode II: Attack of the Clones* was released on May 16, 2002, ESPN's "Sports Center" featured a parody segment based on *Star Wars* to report the events of the previous day's California Angels vs. Detroit Tigers baseball game. During a sketch entitled "Attack of the Halos,"[36] the pitcher for the victorious Angels was hailed as "Darth Vader" for preventing Tiger hitters from reaching base. Angel manager Mike Sciosia was able to convince an umpire to change a call and therefore was deemed by anchorman Scott Van Pelt to have been using "Jedi mind tricks." Even Yoda made an appearance, to predict the Angels' 10-run offensive output—"Score runs, you will"—in a lampoon of the character's penchant for speaking in reversed English.[37] The sketch even began with the anchorman reading a script which scrolled across the screen set on a backdrop of stars which segued smoothly from the stars to a night view of the Angels home baseball field.

This use, a parody sketch in a mainstream news reporting show, is completely different than pre-existing news parodies that were aired on variety programming such as NBC's "Saturday Night Live." This combination of the Copyright Act § 107 uses of news reporting and parody is not only a fair use, but was not contemplated by the statute, House Committee Reports or Guidelines. Further, *Campbell* has proved less than prophetic in commenting *in dicta* that there may be no protectable market for licensed parody derivatives in light of the wild success of the Cartoon Network's programs and merchandise.[38] Many old shows may see new life in a completely different incarnation. Moreover, the trademark rights of characters could be refreshed by such licensed usages. Therefore, the time for both judicial recognition and the uses of such licenses has come.

Practical and Ethical Considerations

Although "advice is as a dangerous thing to give, even from the wise to the wise as all courses may run ill,"[39] there are some general guidelines that should prove determinative in most circuits. First, a claim of parody is usually strongly inferred as a pretext if the characterization of a new work as a parody was never propounded until after litigation was either threatened or had already begun.[40] Unfortunately, *The Wind Done Gone* is an exception to this otherwise bright-line test. Additionally, the defendant in *Dr. Seuss* clearly claimed parody as a defense from the inception of the product, yet the Northern District of California found the parody defense to be merely a "post hoc characterization" and "pure shtick."[41] As a general rule of practice, it is best for clients to claim parody from the outset, even in the most seemingly unnecessary of circumstances.

Next, pornographic uses are usually enjoined.[42] One notable exception occurred recently in *Lucasfilm v. Media Market Group*,[43] where a pornographic on-line parody cartoon entitled "Starballz" was afforded protection as a parody. This decision appears to be an anomaly because it is contrary to almost every other reported decision, especially *MCA* and *Disney*.

Additionally, the client should explore the benefits of entering into favorable parody licensing arrangements and other derivative markets. Indeed, Napster's very existence depends on whether the major labels were reasonably exploring the on-line digital download market. This "use it or lose it" analysis of derivative markets could grow to encompass parody licenses.

Finally, have the client ask permission. In an age where the parody market has begun to see a growth of licensing activity, not only might the client avoid litigation, but the goodwill gesture could lead to a lucrative licensing arrangement. Additionally, some artists might see such recognition as a badge of honor or accomplishment. Further, reference on "Saturday Night Live" or becoming the subject of the next Weird Al Yankovic single would also garner free exposure of the author's work in the marketplace.

Conclusion

Is a new wind blowing? Certainly not. Winds of change have assailed copyright law for decades, yet each time the fair use test and free speech analysis have weathered the storm and emerged stronger and clearer than before. While there will always be an odd anomaly or aberration, consistency and resilience have prevailed in both the recent reported decisions on file-sharing and in the long litany of past reported decisions. Winds of change will continue to howl around copyright law. So long as we continue to use a test that is flexible and equitable, balancing all factors rather than citing one factor as controlling, no matter how innovative a technological marvel may be, no matter how unique a new "writing" may appear and no matter how close a factual scenario will present itself, it will be nothing that we cannot handle.

Endnotes

1. 510 U.S. 569 (1994).
2. *Dr. Seuss' Enterprises v. Penguin Books* 109 F.3d, 1395, 1421 (9th Cir. 1997) and *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001), hereinafter the *Dr. Seuss* and *Wind Done Gone* decisions, respectively.
3. *SunTrust Bank v. Houghton Mifflin Co.*, 268 F.3d 1257 (11th Cir. 2001), hereinafter the *Dr. Seuss* and *Wind Done Gone* decisions.
4. U. S. Const., article I, § 8, clause 8.
5. *UMG Recordings, Inc., et. al. v. MP3.com*, 92 F. Supp. 2d 349, (S.D.N.Y. 2000); *A&M Records, et. al. v. Napster, Inc., et. al.*, __ F. Supp. 2d __, hereinafter *MP3.com* and *Napster*, respectively.
6. *Universal Studios v. Corley*, 273 F.3d 429 (2d Cir. 2001), hereinafter the DVD case.
7. Einhorn, *Miss Scarlett's License Done Gone: Parody, Satire and Markets*, 2001.
8. *DVD*, 458.
9. *Id.*, 458; citing *Harper & Row Publishers, Inc. v. Nation Enterprises*, 471 U.S. 539; *Campbell*, at 569 et. seq.
10. *See Id.* at 458; citing *Twin Peaks Productions, Inc. v. Publications Int'l, Inc.*, 996 F.2d 1366, 1378 (2d Cir. 1993).
11. *DVD*, 458, n.26.
12. *See SunTrust* at 1259.
13. Perhaps the best source of the similarities between the books is found in the Beeber Affidavit, an affidavit prepared by the plaintiff's attorneys detailing each and every similarity between the works. The Beeber Affidavit can be found at *The Wind Done Gone* Web site, http://www.winddonegone.com.
14. 136 F. Supp. 2d at 1386.
15. 136 F. Supp. 2d 1357, 1375 (N.D. Ga 2001).
16. Goldberg & Bernstein, *Copyright Law—Demi Moore, Dr. Seuss and Seinfeld: Fair Use in the 90's*, N.Y.L.J., May 5, 1997.
17. *See Campbell* at 589; quoted in *Leibovitz v. Paramount Pictures*, 948 F. Supp. 1214 (S.D.N.Y. 1996.) *See also* Goldberg & Bernstein, *Copyright Law—Demi Moore, Dr. Seuss and Seinfeld: Fair Use in the 90's*, N.Y.L.J., May 5, 1997.
18. *See Leibovitz* at 1226.
19. This has been both a blessing and a conundrum. Justice Souter analyzed transformative value while discussing the first statutory factor—the purpose and character of the use—instead of the third factor, the amount and substantiality of the taking. This caused confusion in judicial review because the amount and substantiality taken are, intuitively, inextricably intertwined with the amount of transformative value infused into the new work.
20. *SunTrust* at 1265, citing *Bateman v. Mnemonics, Inc.*, 79 F.3d 1532, 1542 N22 (11th Cir. 1996).
21. 8 Ann. C. 19 (1710).
22. *Id.*
23. *Id.*, P1262.
24. *See Campbell* at 21, 510 U.S. 569, 578 n.10, 114 S.Ct. 1164, 1171 n.10 (1194).
25. *See* note 11.
26. *See SunTrust* at 1262.
27. *Id.*
28. *SunTrust* at 1289.
29. *SunTrust* at 1237.
30. *Campbell* at 589.
31. Michael A. Einhorn, p. 1; citing A. Kozinski & C. Newman, *What's So Fair About Fair Use?*, 47 J. Copyr. Soc'y 513, 515 (2000).
32. 109 F. 3d, 1395.
33. *Id.* at 1402.
34. *See Id.* at 1403.
35. Nevertheless, by mixing Dr. Seuss' child-like rhymes and poetic meter with the absurd way in which the O.J. Simpson trial unfolded, both were markedly improved. As examples: "I did not kill my lovely wife, I did not stab her with a knife, I did not kill my one true love, Now give me back my bloody glove!" and "Oh me! Oh my! Oh my! Oh me! The murderer is running free!" 109 F.3d, 1395, 1421 (9th Cir. 1997).
36. "Halos" is an unofficial nickname for the California Angels.
37. ESPN broadcast, "Sports Center": 6 AM edition, re-aired numerous times that day, May 16, 2002.
38. *See Campbell* at 594, where the Court states that artists and authors are not likely to license parodies of their works.
39. J.R.R. Tolkien, *The Lord of the Rings*, Book I, ch. 3 at 82.
40. *See MCA v. Wilson*, 677 F.2d 180 (2d Cir. 1981) and *Walt Disney v. Mature Pictures*, 389 F. Supp. 1397 (S.D.N.Y., 1975).
41. *See Dr. Seuss* at 1403.
42. *Id.*
43. (N.D. Ca., C 01-04041 CW), Jan. 8, 2002.

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How to Cure Performance Anxiety

By Michael A. Einhorn

Introduction

With the passage of the Digital Performance Rights in Sound Recordings Act[1] of 1995 (DPRA) and the Digital Millennium Copyright Act[2] of 1998 (DMCA), two independent rights are now implicated when a sound recording is performed in a webcast digital audio transmission,[3] and two more in making the necessary ephemeral reproduction[4] beforehand on the Web server. These performance and reproduction rights, which are complementary to one another, are controlled by two independent owners now governed in different institutional systems; the record label controls all rights in the actual sound recording, while the publisher owns the copyright in the music and lyrics of the underlying composition.[5] With regulatory segmentation, the current U.S. copyright system presents duplicate negotiation and administration costs to the webcaster licensees who must cobble together the requisite permissions from a number of independent sources. This article offers a strategy to streamline the system.

> *"The CARP results may strike some as harsh, particularly since radio broadcasters do not pay for over-the-air performance rights."*

Sound Recordings

Sections 106(4) and 106(6) of the Copyright Act[6] establish separate rights for the performances[7] of musical compositions and digitally transmitted sound recordings,[8] which now legally include wired transmissions that are part of a webcast. Established by the DPRA[9] and modified by the DMCA,[10] section 114 of the U.S. Copyright Act sets forth a three-tiered structure of regulations to govern performance rights in sound recordings.[11] Section 114(d)(2) establishes the rules for a class of non-interactive audio transmissions that are made eligible for a statutory license to be administered by the Copyright Office.[12]

If negotiating parties cannot reach an agreement during a 60-day negotiation period, a copyright arbitration royalty panel (CARP) must be convened; rates and terms should reflect considerations that would have been negotiated between a willing buyer and willing seller in a competitive marketplace.[13] The panel must base its decision on economic, competitive and programming information presented by the parties, including whether the use of the service may substitute for or enhance the sales of phonorecords. The panel must also consider the relative roles of the copyright owner and the transmitting entity in the copyrighted work, and the service made available to the public with respect to relative creative contribution, technological contribution, capital investment, cost and risk.

Effective July 8, 2002, the Copyright Office imposed final charges for webcast use of sound recordings for non-archived purposes—07 cents for Internet simulcasts of radio broadcasts, and an 8.8 percent increment to cover related ephemeral rights.[14] The CARP results may strike some as harsh, particularly since radio broadcasters do not pay for over-the-air performance rights. However, the differing economics of broadcast and webcast media should deter this quick comparison; webcasting is more likely than broadcasting to displace online sales and disrupt the business models of the new interactive subscription services.[15]

Congress recognized these distinctions when it included in the DPRA a narrow performance right that was applicable only to digital audio transmissions of sound recordings.[16] Webcast "performances" are more likely to be captured and directly copied to hard drives, where they can be burned to CDs for use on home stereos. A statutory license for webcasts must then compensate record companies for the increased risk of an unauthorized reproduction that displaces a legitimate purchase, a risk that is clearly greater when the song is transmitted to a computer, which can replicate and retransmit it.[17] Expert testimony at the CARP hearing demonstrated the proficiency of software, such as Bitbop Tuner and Streamripper, which can be programmed to scan webcasts to capture favored tunes.[18]

As a second matter, people listen to broadcast radio primarily during rush hour and work, and not typically at a time when they would otherwise buy music for the purpose. By contrast, webcast radio is heard more often in evenings in the home and may more readily displace purchases made for background accompaniment.[19] Webcast services may be expected to displace both CDs and the emerging interactive music services not subject to statutory licenses.[20] The potential for displacement of evolving business applications was a key consideration in the *Napster* litigation; even if the file-sharing service did not harm the market for audio CDs, the courts held that Napster had adverse effects on the developing business models music labels were attempting to deploy.[21]

In the matter of relative compensation for sound recordings and compositions, sound recordings are appropriately compensated at higher levels because the implicated costs of providing them are greater. Taking the pre-distribution price of a shipped CD at $6 and a reasonable mechanical royalty of 80 cents,[22] the respective ratio of imputed profits and costs for the two complementary rights is 5.5:1. From the higher pool of recovered dollars, record labels must cover artist advances, promotional investments, variable production/distribution costs, unit royalties, company overhead and investor profits. The panel rejected expert testimony that suggested that copyrights for sound recordings and compositions would be bid to parity in a residual market where the licenses for each would be "gravy to the bottom line" on the income statements of the respective rights owners, who presumably would be willing to underbid one another to near-zero compensation.[23]

Musical Compositions

Once the Copyright Office released its results in June, Congress could promote digital services by passing legislation to integrate complementary rights for composition and sound recording copyrights used in digital audio transmissions covered by statutory licenses. Rights for the public performance of musical compositions in audio, non-dramatic presentations are now almost universally conveyed through licenses granted by the nation's two largest performing rights organizations (PROs)—the American Society of Composers, Authors, and Publishers (ASCAP), and Broadcast Music, Inc. (BMI)—which license the works of writers and publishers registered in their respective catalogs.[24] Virtually all music publishers and professional songwriters are members of or affiliated with one PRO.[25] These collective organizations now sell licenses, collect fees, sample users, bring infringement actions, administer foreign collections and—after deducting 14 to 20 percent for operating expenses—distribute revenues to copyright owners.[26] The collecting societies pay no advances to songwriters or publishers and split collected royalties evenly between them.

Both ASCAP and BMI now generally issue blanket licenses to webcasters that convey rights in their respective catalogues for a specified term. The institution of the blanket license emerged at the inception of ASCAP in 1914 as an economic way to cover copyright payments from restaurants, vaudeville halls and movie theaters without need for a song-by-song monitoring of live play. Blanket fees continued when broadcast radio emerged, as original program music on radio and the earlier forums was live and sometimes spontaneous. The practice was upheld by a 1977 Supreme Court decision,[27] where Justice White noted that "changes brought about by new technology or new marketing techniques might also undercut the justification for the practice."[28] Blanket licensing continues in prominent use to the present day on broadcast radio, television and cable, although the implicated costs of piece monitoring have decreased considerably.[29] Webcasters now pay 1.615 percent of adjusted advertising revenues (less reasonable deductions) for blanket rights to the ASCAP catalog. This is the same rate paid by broadcasters, and no recognition is made here of the considerable differences in the potential for displacement in the two performance media.[30]

"Rights for the public performance of musical compositions in audio, non-dramatic presentations are now almost universally conveyed through licenses granted by the nation's two largest PROs—ASCAP and BMI—which license the works of writers and publishers registered in their respective catalogs."

Fees at ASCAP and BMI are established in a sequence of negotiations that may involve individual webcasters or the webcasters' group agents. If parties are unable to agree on a fee within 60 days of receipt of the initial application, any party may request the appropriate Rate Court to determine a reasonable fee.[31] These independent Rate Courts enforce the terms of two consent decrees that ASCAP and BMI first entered into with the U.S. Department of Justice in 1950 and 1966, respectively.[32] The decrees were since modified in 1960 and 1994;[33] ASCAP and the Department most recently entered an amended decree in June 2001.[34] The Rate Courts operate independently of the Copyright Office and do not have ratemaking procedures congruent with those established for sound recording rights. By law, consent decrees may be amended only with the consent of the signing parties and permit full legal standing only to the collecting society and the Department.[35] Songwriters, publishers and licensees who create, market and use the copyrighted material have legal standing only within the narrow definition of the specific decree.[36]

With digital technology, the traditional justification for the blanket license is no longer relevant, as each performance can be notched through monitoring technologies that allow rights holders and users to track music usage. In a supporting memorandum to its new consent decree with ASCAP, the Justice Department noted:[37]

> The Department is continuing to investigate the extent to which the growth of [digital] technologies warrants additional changes to the [Consent Decrees], including the possibility that the [performing rights organizations] should be prohibited from collectively licensing certain types of users or performances.[38]

The Department's expression is as much a concern about antitrust policy as efficiency in monitoring.

"With digital technology, the traditional justification for the blanket license is no longer relevant, as each performance can be notched through monitoring technologies that allow rights holders and users to track music usage."

Leaving the Department's antitrust considerations aside, more transparency could be had if performance rights for digitally transmitted compositions were assigned to the domain of the Copyright Office, as is now done for performance rights on jukeboxes,[39] distant satellite transmissions for public broadcasting and cable superstations,[40] and local satellite redistribution.[41] Under present governance, the Copyright Office can issue "notices of inquiry and proposed rulemaking" that would invite comments from all affected parties and grant equal legal standing to any such parties.[42] In a statutory license, the payment schedule for compositions should be congruent with payments to sound recordings; for example, composition royalties can be proportional to recording payments, much as the CARP recommended for ephemeral reproductions.

Monitoring of webcasts could be done by an independent party, such as Sound Exchange[43] or Music Reports.[44] Once fees are set and performances logged, one appointed agent can collect and distribute revenues. Possibilities for an appointment would include an independent agent or a consortium operated jointly by the three existing PROs (which is now the practice for license collections in jukeboxes).

In the same way that The Harry Fox Agency, Inc. collects for and distributes copyright royalties to publishers for musical compositions that are included on phonorecords, such as CDs, that are manufactured and distributed in the U.S., the appointed agent can minimize its expenses by paying collected royalties directly to publishers, which would then send the statements to the writers. Once compensated, publishers may pay negotiated shares to respective writers. When deals are so negotiated, individual publishers can commit to more specific terms and generally may compete for talent; for example, a publisher bent on attracting a star writer may actually award her a greater share and a considerable advance.

A final issue bearing upon music copyright implicates the proper handling of digital phonorecord deliveries[45] and interactive streams[46] that are also transmitted through the wires of the Internet. Banking on the legal definition of "public" performance,[47] performing rights advocates may agree with ASCAP that "every Internet transmission of a musical work constitutes a public performance of that work."[48] Simultaneously, mechanical rights advocates claim that downloaded and streamed transmissions involve permanent or incidental reproductions in permanent or random access memory that are legitimately subject to their control.[49] In connection with its appointed statutory responsibilities under section 104 of the DMCA,[50] the Copyright Office concluded in August 2001 that both the musical performance in a permanent download and the temporary reproduction in an interactive stream are technical by-products with no economic value.[51] The report then advocated that download rights be assigned as reproductions, while rights for interactive streaming be assigned as performances.

If this recommendation were to be adopted, the "making available" rights[52] of downloading and interactive streaming would be under separate administrative domain, with little possibility for coordinating the disparate rights. To be consistent with the mechanical right currently implicated for CDs that are purchased in stores and clubs, a related paper argues that both transmissions should be administered together and set in a congruent fashion as mechanical reproductions.[53]

Endnotes

1. Pub. L. No. 104-39, 109 Stat. 336.
2. Pub. L. No. 105-304, 112 Stat. 2860.
3. A "digital audio transmission" is a digital transmission that embeds a sound recording. 17 U.S.C. § 114(j)(5)(2000).
4. "Ephemeral recordings are reproductions of a work produced solely for the purpose of a transmission of the work by an entity legally entitled to publicly perform the work." S. Rep. No. 104-128, at 83 (1995). Ephemeral copyrights are limited by exemptions established in 17 U.S.C. § 112 (2000). Yet a third set of rights possibly implicated in streaming, the rights to make incidental reproductions in random access memory, may yet come into consideration for ratemaking.
5. A songwriter passes her composition and original copyright to a publisher, who is responsible for promoting the song and administering the rights. Many writers act as their own publish-

ers, and major recording labels maintain their own publishing houses.

6. 17 U.S.C. § 106.

7. To "perform" a work (outside of audiovisual applications) is to "recite, render, play, dance, or act it, either directly or by means of any device or process." 17 U.S.C. § 101. To perform a work "publicly" means "(1) to perform . . . it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered; or (2) to transmit or otherwise communicate a performance . . . of the work to a place specified by clause (1) or to the public, by means of any device or process, whether the members of the public capable of receiving the performance . . . receive it in the same place or in separate places and at the same time or at different times." 17 U.S.C. § 101.

8. A "sound recording" is a work that results "from the fixation of a series of musical, spoken, or other words . . . regardless of the nature of the material subjects, such as disks, tapes, or other phono records, in which they are embodied." 17 U.S.C. § 101.

9. *Supra* note 2.

10. *Supra* note 3.

11. 17 U.S.C. § 114(d).

12. 17 U.S.C. § 114(d)(2). Among the restrictions, licensees must not cause the receiver to change from one program channel to another, not pre-announce the broadcast of particular songs, must adhere to rules regarding the "sound recording complement" to ensure variety and must provide information regarding the label and the artist. In contrast with the statutory licenses of section 114(d)(2), exemptions for digital over-the-air broadcasts are established in 17 U.S.C. § 114 (d)(1). Exclusive rights for streaming services that are ineligible for the statutory license (including interactive streaming) are established in 17 U.S.C. § 114(d)(3).

13. 17 U.S.C. § 114(f)(2).

14. Determination of Reasonable Rates and Terms for the Digital Performance of Sound Recordings and Ephemeral Recordings; Final Rule Docket No. 2000-9, CARP DTRA 1 & 2 (2002), 67 FR 45239, at http://www.copyright.gov/carp/webcasting_regs.html. (visited July 15, 2002).

15. Federal copyright protection was first extended to reproductions of sound recordings in 1971, Pub. L. No. 92-140, 85 Stat. 391 (1971), and made permanent in the 1976 Copyright Act., Pub. L. No. 93-573, 88 Stat. 1873 (1974). However, Congress resisted giving record labels any concomitant right in the performances of their recordings, arguing that radio airplay is a useful means of promoting sales. Subcomm. On Courts, Civil Liberties, and the Admin. Of Justice, House Comm. On the Judiciary, Performance Rights in Sound Recordings (1978).

16. S. Rep. No. 104-128, at 14-17 (1995); H.R. Rep. No. 104-274 at 5-13 (1995).

17. "Public Performance of Sound Recordings: Definition of a Service" (37 C.F.R. Part 201, Docket No. RM 2000-3B, 65 Fed. Reg., 77292, 77301).

18. Testimony, James Griffin.

19. Arbitron Research, *Startling New Insights About the Internet and Streaming* (Internet users use media as background accompaniment to their work; 55 percent listen to music from CDs and tapes, 49 percent listen to radio, 36 percent talk on telephone, and 32 percent watch television).

20. These would include the competing joint ventures—MusicNet and Pressplay—that the five major record labels have entered into, as well as independent subscription services that would pay licensing fees.

21. *A&M Records, Inc., v. Napster, Inc*., 239 F.3d 1004 (9th Cir. 2001).

22. Obtained by multiplying the compulsory rate of 8 cents per song times 10 songs per CD. "Mechanical and Digital Phonorecord Delivery Rate Adjustment Proceeding," 64 Fed. Reg. 26 (Feb. 9, 1999), [Rules and Regulations], [Page 6221-6223] 37 C.F.R. Part 255; [Docket No. 96-4 CARP DPRA].

23. Testimony, Adam Jaffe, 6859: 16-17.

24. A third organization, SESAC, accounts for roughly 3 percent of registered compositions.

25. Licenses are non-exclusive, meaning that the writer has the authority to license his individual work directly for any particular use.

26. ASCAP deducted 14.1 percent for 2001; at *ASCAP 2001 Financial Results Announced at West Coast Membership Meeting*, at http://www.ascap.com/press/financial_020502.html (visited May 24, 2002). BMI reported 18 percent for 1999, which was the last year made available on its Web site at http://www.bmi.com/iama/media/fat/money.asp (visited May 1, 2000).

27. *BMI v. CBS,* 441 U.S. 1, 22 (1977), (J. Stevens dissenting).

28. *Id.*, n.34.

29. Use of individual works can generally be determined from logs of airplay and television uses from relevant cue-sheets of music on soundtracks.

30. *ASCAP Local Station Blanket Radio License*, at 8(A)(2), available at http://www.ascap.com/licensing/radio/Blanket_Radio_License.pdf; *ASCAP Experimental License Agreement for Internet Sites & Services - Release 4.0,* at Schedule A, available at http://www.ascap.com/weblicense/ascap.pdf (visited May 24, 2002).

31. *Infra* notes 34-36.

32. *United States v. ASCAP*, 1950 Trade Cas. (CCH), ¶ 62,595 (S.D.N.Y. 1950); *United States v. BMI*, 1966 Trade Cas. (CCH) ¶ 71,941 (S.D.N.Y. 1966).

33. *United States v. ASCAP*, 1960 Trade Cas. (CCH), ¶ 69, 612 (S.D.N.Y. 1960); *United States v. BMI*, 1996-1 Trade Cas. (CCH) ¶ 71,378 (S.D.N.Y. 1994).

34. *United States v. ASCAP*, 2001-2 Trade Cas. (CCH)¶ 73, 474 (S.D.N.Y. 2001);

35. *United States v. Atl. Refining Co*. 360 U.S. 19 (1959); *Suarez v. Ward*, 896 F.2d 28 (2d Cir. 1990); *Berger v. Heckler*, 771 F.2d 1556 (2d Cir. 1985).

36. Licensee standing was denied in *United States v. Am. Soc'y of Composers, Authors and Publishers*, 208 F. Supp. 896 (S.D.N.Y. 1962), *aff'd*, 331 F.2d 117 (2d Cir. 1964); *United States v. Am. Soc'y of Composers, Authors and Publishers*, 708 F. Supp. 95 (S.D.N.Y. 1989). Writer standing was denied in *United States v. Am. Soc'y of Composers, Authors and Publishers*, 708 F. Supp. 95 (S.D.N.Y. 1989); *United States v. Am. Soc'y of Composers, Authors and Publishers*, 739 F. Supp. 177 (S.D.N.Y. 1990); *United States v. Am. Soc'y of Composers, Authors and Publishers*, 914 F. Supp. 52 (S.D.N.Y. 1996).

37. Memorandum of the United States in Support of the Joint Motion to Enter Second Amended Final Judgment, at note 10, *United States v. Am. Soc'y of Composers, Authors and Publishers* (S.D.N.Y. 2001) (Civ. No. 41-1395).

38. *Id.* at n.10.

39. 17 U.S.C. § 116; 17 U.S.C. § 803 (a)(4)(B).

40. 17 U.S.C. § 119; 17 U.S.C. § 801 (b)(1).

41. 17 U.S.C. § 122; 17 U.S.C. § 801 (b)(1).

42. *See supra* notes 37-38 and accompanying text.

43. Sound Exchange is the monitoring authority of the recording labels.

44. Music Reports Inc. is an independent monitoring authority that now collects music use data on broadcast radio and television.

45. A "digital phonorecord delivery" is each individual delivery of a phonorecord by digital transmission of a sound recording, which results in a specially identifiable reproduction by or for any transmission recipient of a phonorecord of that sound recording. 17 U.S.C. § 115(d).

46. An "interactive stream" is "one that enables a member of the public to receive . . . a transmission of a particular sound recording . . . which is selected by or on behalf of the recipient." 17 U.S.C. § 114(j)(7).

47. *Supra* note 8.

48. *See, e.g.*, ASCAP, *Frequently Asked Questions About Internet Licensing, at* http://www.ascap.com/weblicense/webfaq.html (last visited Dec. 13, 2001).

49. C. Ramos, Testimony, Subcommittee on Courts, the Internet, and Intellectual Property, Committee on the Judiciary, U.S. House of Rep., Dec. 12, 2001.

50. U.S. Copyright Office, DMCA Section 104 Report (2001). Section 104 of the DMCA directed the Register of Copyrights and the Assistant Secretary for Communications and Information of the Department of Commerce to jointly evaluate: "(1) the effects of the amendments made by this title and the development of electronic commerce and associated technology on the operation of sections 109 and 117 of title 17, United States Code; and (2) the relationship between existing and emergent technology and the operations of sections 109 and 117 of title 17, United States Code." Pub. L. No. 105–304, 112 Stat. 2860.

51. *Id.* at 143-48.

52. Article 8 of the WIPO Copyright Treaty and articles 10 and 14 of the WIPO Performances and Phonograms Treaty established exclusive rights of copyright owners to make—or not make—their materials available to any listener at a time and place selected in an interactive fashion.

53. M. Einhorn & L. Kurlantzick, *Traffic Jam on the Music Highway: Is it a Reproduction or a Performance Right?*, forthcoming, *Journal of the Copyright Society*.

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Elena M. Paul, VLA's Executive Director, is a Harvard-trained attorney with over 13 years of legal experience, concentrating in corporate and nonprofit matters. Ms. Paul serves as President of the Board of Hand Print Workshop International, Inc., and as an advisor to many other nonprofit arts and cultural organizations. She frequently teaches and leads seminars on a broad range of topics, including fund-raising, grant-writing, and creating nonprofit, tax-exempt corporations.

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Entertainment, Arts and Sports Law Journal

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711 3rd Avenue
New York, NY 10017

This *Journal* is published three times a year for members of the Entertainment, Arts and Sports Law Section of the New York State Bar Association. Members of the Section receive the *Journal* without charge. The views expressed in articles published in this *Journal* represent those of the authors only, and not necessarily the views of the Editor, the Entertainment, Arts and Sports Law Section or the New York State Bar Association.

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ISSN 1090-8730

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